Regal Petroleum

Press Release

24 September 2013

REGAL PETROLEUM PLC

2013 INTERIM RESULTS

Regal Petroleum plc (the "Company", and with its subsidiaries, the "Group"), the AIM-quoted (RPT) oil and gas exploration and production group, today announces its unaudited results for the six months ended 30 June 2013.

Principal Developments

Operations

- Average production over the six month period to 30 June 2013 at 199,984 m^3/d of gas and 44 m^3/d of condensate (1,525 boepd in aggregate)
- Well SV-53 to undergo hydraulic fracturing
- Well SV-59 drilled to depth of 4,957 metres, towards target depth of 5,470 metres
- Upgrading of gas processing facility underway to improve efficiency and quality of gas produced, and provide for recovery of LPG

Finance

- Revenue from continuing operations for six month period to 30 June 2013 of $19.7 million (1H 2012: $22.0 million)
- Profit from continuing operations for six month period to 30 June 2013 of $2.1 million (1H 2012: $6.7 million)
- Realised average gas and condensate prices in Ukraine for six month period to 30 June 2013 of $419/$Mm^3$ and $91/bbl respectively (1H 2012: $422/$Mm^3$ and $104/bbl respectively)
- Cash at 30 June 2013 of $26.8 million (31 December 2012: $28.5 million), with cash balance at 22 September 2013 of $24.6 million

For further information, please contact:

Regal Petroleum plc — **Tel: 020 3427 3550**
Keith Henry, Chairman
Alexey Timofeyev, Director

Strand Hanson Limited — **Tel: 020 7409 3494**
Rory Murphy / Richard Tulloch

Citigate Dewe Rogerson — **Tel: 020 7638 9571**
Martin Jackson / Jack Rich

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Joe Staffurth, BSc Geology, PESGB, AAPG, consultant to the Company, has reviewed and approved the technical information contained within this press release in his capacity as a qualified person, as required under the AIM Rules.

Definitions

bbl	barrel
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
HSES	health, safety, environment and security
LPG	liquefied petroleum gas
m^3/d	cubic metres per day
Mm^3	thousand cubic metres
$	United States Dollar
c	United States Cent

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Chairman's Review

I am pleased to report that the Group is continuing with the development of our 100% owned and operated Mekhediviska-Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") gas and condensate fields in Ukraine. I am also pleased to be able to report we continued to operate safely during the period, with no Lost Time Incidents or Restricted Work Cases.

The Group operated profitably during the first six months of 2013. This is attributable to ongoing production in Ukraine, together with the continued benefit of favourable gas prices, the effects of which are reflected in these interim results.

Production for the first six months of the year averaged 199,984 m^3/d of gas and 44 m^3/d of condensate (1,525 boepd in aggregate) compared to average production of 214,470 m^3/d of gas and 47 m^3/d of condensate (1,636 boepd in aggregate) in the first half of 2012. Production from 1 July 2013 to 22 September 2013 averaged 181,357 m^3/d of gas and 41 m^3/d of condensate (1,388 boepd in aggregate).

We completed the hook-up and testing of the SV-53 and MEX-105 wells during the first half of 2013, but unfortunately neither well delivered the anticipated levels of production. The SV-53 well has produced at modest rates, using compression, and is shortly to undergo a hydraulic fracturing programme. The MEX-105 well did not produce hydrocarbons on test and has undergone a well stimulation programme, which included hydraulic jet perforation, but this programme was unsuccessful, and accordingly the well is being assessed as a candidate for hydraulic fracturing.

In light of the results from these wells, new geophysical studies are being undertaken, which together with the results of future wells and the well stimulation programme, may cause the Group to consider revising the current field development plan, which in turn may result in a reduction in the carrying value of the Group's oil and gas development and producing assets in Ukraine.

The SV-59 well was spudded in February 2013 and, at 23 September 2013, had reached a depth of 4,957 metres, with a target depth of 5,470 metres. Drilling operations are scheduled to be completed by the end of the year and, subject to successful testing, production hook-up by the end of the first quarter of 2014.

The workover operations at the GOL-1 well, which are designed to eliminate water ingress, are continuing. The upgrade of methanol equipment at two existing wells has been completed and compression equipment has now been installed in the field.

The second phase of the upgrade of the Group's gas processing facility is proceeding on schedule, with the installation of the new equipment ongoing. This upgrade is designed to enhance the facility's overall efficiency and incorporate compression equipment, and it is anticipated that this will provide financial benefits as well as operational and HSES improvements.

The additional upgrade work to provide for LPG recovery at the gas processing facility is also proceeding on schedule, and this upgrade is designed to reduce hydrocarbon losses and improve the quality of gas produced, as well as add to production revenue from the sale of LPG.

Keith Henry
Executive Chairman

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Finance Review

The Group's profit from continuing operations for the six month period to 30 June 2013 was $2.1 million (1H 2012: $6.7 million).

Revenue from continuing operations, derived from the sale of the Group's Ukrainian gas and condensate production, was $19.7 million (1H 2012: $22.0 million) due to a combination of lower volumes and lower average prices.

For the first six months of the year, the average realised gas and condensate prices were $419/Mm^3 and $91/bbl respectively (1H 2012: $422/Mm^3 and $104/bbl respectively). While there continues to be speculation regarding the possible renegotiation of the gas supply agreement between Russia and Ukraine and its potential effects on the Ukrainian gas price, no decision has been reached on any adjustment. It is recognised that this level of realisation may decrease in the future in the event of the renegotiation outlined above and the Group has taken this possibility into consideration in its internal projections and budgets.

Cost of sales for the six month period to 30 June 2013 was $11.4 million (1H 2012: $9.0 million). This increase was due to a combination of the new single subsoil tax, which came into effect from 1 January 2013, and higher depreciation charges of $5.5 million (1H 2012: $4.5 million) due to the revised reserves base as at 31 December 2012.

Included within finance costs, is a charge for the discounting of long-term purchase tax recoverable from the Ukrainian Government of $0.2 million (1H 2012: finance income from the unwinding of the discount of $1.8 million) due to an increase in the forecast recovery period.

The tax charge for the period was $2.3 million (1H 2012: $3.7 million) which comprises a current tax charge of $0.4 million (1H 2012: $1.6 million) and a deferred tax charge of $1.9 million (1H 2012: $2.1 million).

Capital investment for the period was $13.0 million (1H 2012: $11.1 million) which principally reflects the current drilling programme in Ukraine.

Cash held at 30 June 2013 was $26.8 million (31 December 2012: $28.5 million). Cash from operations has funded the capital investment during the first half of this year.

The Company's cash balance at 22 September 2013 is $24.6 million. The movement since 30 June 2013 reflects operational cash generated since that date less capital investment in the assets.

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Principal Risks and Uncertainties

For the remainder of the year and beyond, the Group faces a number of risks and uncertainties. Specific challenges include:

Risks relating to Ukraine
Emerging markets are subject to greater risks than those which are more developed including, in some cases, significant legal, economic and political risks. Such economies may also be subject to rapid change and the Group needs to adapt and alter itself, as needed, relatively quickly.

The Ukrainian Government is keen to develop the country's domestic production of hydrocarbons since Ukraine imports the majority of its gas needs from Russia. Whilst this should put the Group in a well-placed position, as experienced previously, there are significant risks to carrying out business in the country. It is considered that the involvement of Energees Management Limited, as a major shareholder with extensive experience in Ukraine, has helped to mitigate such risks.

Production risks
Producing gas and condensate reservoirs are generally characterised by declining production rates which vary depending upon reservoir characteristics and other factors. Future production of the Group's gas and condensate reserves, and therefore the Group's cash flow and income, are highly dependent on the Group's success in operating existing producing wells, drilling new production wells and efficiently developing and exploiting any reserves, and finding or acquiring additional reserves. The Group may not be able to develop, find or acquire reserves at acceptable costs. The experience gained from drilling undertaken to date highlights such risks as the Group targets the appraisal and production of these hydrocarbons.

Risks relating to further development and operation of the Group's gas and condensate fields in Ukraine
The planned development and operation of the Group's gas and condensate fields in Ukraine is susceptible to appraisal, development and operational risk. This could include, but is not restricted to, delays in delivery of equipment in Ukraine, failure of key equipment, lower than expected production from wells that are currently producing, or new wells that are brought on-stream, problematic wells and complex geology which is difficult to drill or interpret. The generation of significant operational cash is dependent on the successful delivery and completion of the development and operation of the fields. Furthermore, the optimisation of all of the Group's assets is dependent on maintaining constructive relationships between all of our business stakeholders.

Exposure to credit, liquidity and cash flow risk
The Group does not currently have any loans outstanding. Local customers are managed in Ukraine and their financial position, past experience and other factors are evaluated. Internal financial projections are regularly made based on the latest estimates available, and various scenarios are run to assess the robustness of the liquidity of the Group. The Group currently holds sufficient cash and cash equivalents for the anticipated short to medium term needs of the business. Whilst much of the future capital need is expected to be derived from operational cash generated from production, including from wells yet to be drilled, there is a risk that in the longer term insufficient operational cash is generated, or that additional funding, should the need arise, cannot be secured.

Currency risk
The Company's main activities are (i) investment into the development of the Company's Ukrainian gas and condensate assets; (ii) the production and sale of gas and condensate; and (iii) the continued exploration for further hydrocarbon reserves.

The Group receives sales proceeds in Ukrainian Hryvnia, and the majority of the capital expenditure costs for the 2013 investment programme will be incurred in Hryvnia, thus revenue and costs are largely matched. As with all currencies, the value of the Hryvnia is subject to foreign exchange fluctuations. Currently the Hryvnia does not enjoy the range of benefits of currency hedging

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instruments which are available in more developed economies and, as a result, the Group has adopted a policy that funds not required for use in Ukraine be retained on deposit in the United Kingdom, principally in US Dollars.

Ukraine Production Licences
The Group operates in a region where the right to production can be challenged by State and non-State parties. During 2010, this manifested itself in the form of a Ministry Order instructing the Group to suspend all operations and production from its Ukrainian production licences. Whilst the Ministry Order has now been resolved, the environment is such that a challenge may arise at any time in the future in relation to the Group's operations, licence history, compliance with licence commitments and/or local regulations. The Group endeavours to ensure compliance with commitments and regulations via Group procedures and controls or, where this is not immediately feasible for practical or logistical considerations, seeks to enter into dialogue with the relevant Government bodies with a view to agreeing a reasonable timeframe for achieving compliance or an alternative, mutually agreeable course of action.

Oil and gas price risk
The Group derives its revenue principally from the sale of its Ukrainian gas and condensate production. These revenues are subject to commodity price volatility and political influence. A prolonged period of low oil (and hence gas and condensate) prices may impact the Group's ability to maintain its long-term investment programme with a consequent effect on growth rate which in turn may impact the share price or any shareholder returns. Lower gas and condensate prices may not only decrease the Group's revenues per unit, but may also reduce the amount of gas and condensate which the Group can produce economically.

Although set in Hryvnia, Ukrainian gas prices are largely dictated by Russian, US Dollar-based, import prices due to the dependency of Ukraine on imported gas. The Russian and Ukrainian Governments continue to negotiate future gas import prices and there is a risk that these may be reduced. However, the outcome of these negotiations and its full impact on the price that the Group is able to achieve are as yet unknown.

The overall economics of the Group's key asset (being the net present value of the future cash flows from the Ukrainian project) are far more sensitive to long term oil (and hence gas and condensate) prices than short term oil price volatility. However, short term volatility does affect liquidity risk, as, in the early stage of the project, income from production revenues are outweighed by capital investment.

Industry risks
The Group's ability to execute its strategy is subject to risks which are generally associated with the oil and gas industry. For example, the Group's ability to pursue and develop its projects and development programmes depends on a number of uncertainties, including the availability of capital, seasonal conditions, regulatory approvals, gas, oil and condensate prices, development costs and drilling success. As a result of these uncertainties, it is unknown whether potential drilling locations identified on proposed projects will ever be drilled or whether these or any other potential drilling locations will be able to produce gas, oil or condensate. In addition, drilling activities are subject to many risks, including the risk that commercially productive reservoirs will not be discovered. Drilling for hydrocarbons can be unprofitable, not only from dry holes, but from productive wells that do not produce sufficiently to be economic. In addition, drilling and production operations are highly technical and complex activities and may be curtailed, delayed or cancelled as a result of a variety of factors. Furthermore, whilst the Group is committed to maintaining the highest standards of health, safety, environmental and security in its operational activities, hydrocarbon drilling and production operations carry inherent risks, which in the event of an incident may significantly affect the operational, production, financial and/or business activities of the Group.

Full detail of the principal risks and uncertainties affecting the Company and its operations can be found on the appropriate pages of the 2012 Annual Report which is available on the Company's website www.regalpetroleum.com.

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Condensed Consolidated Income Statement

	Note	**6 months 30 Jun 13 (unaudited) $000**	6 months 30 Jun 12 (unaudited) $000	12 months 31 Dec 12 (audited) $000
Continuing operations				
Revenue	2	**19,651**	22,033	41,103
Cost of sales	7	**(11,403)**	(9,032)	(21,407)
Gross profit		**8,248**	13,001	19,696
Administrative expenses		**(3,552)**	(4,241)	(9,490)
Operating profit		**4,696**	8,760	10,206
Interest income		**412**	437	1,056
Other finance income	3	**-**	1,809	2,485
Finance costs	3	**(498)**	(132)	(397)
Other gains and losses		**(226)**	(448)	(231)
Profit on ordinary activities before taxation		**4,384**	10,426	13,119
Income tax expense	4	**(2,332)**	(3,731)	(78)
Profit for the period from continuing operations		**2,052**	6,695	13,041
Discontinued operations				
Profit / (loss) for the period from discontinued operations	5	**-**	54	(1,400)
Profit for the period		**2,052**	6,749	11,641
Profit per ordinary share (cents) from continuing operations				
Basic and diluted	6	**0.6c**	2.1c	4.1c
Profit per ordinary share (cents) from total operations				
Basic and diluted	6	**0.6c**	2.1c	3.6c

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Condensed Consolidated Statement of Comprehensive Income

	6 months 30 Jun 13 (unaudited) $000	6 months 30 Jun 12 (unaudited) $000	12 months 31 Dec 12 (audited) $000
Equity – foreign currency translation	**48**	(196)	91
Net income / (expense) recognised directly in equity	**48**	(196)	91
Profit for the period	**2,052**	6,749	11,641
Total comprehensive income for the period	**2,100**	6,553	11,732

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Condensed Consolidated Balance Sheet

	Note	**30 Jun 13 (unaudited) $000**	30 Jun 12 (unaudited) $000	31 Dec 12 (audited) $000
Assets				
Non-current assets				
Intangible assets		**91**	69	65
Property, plant and equipment	7	**240,861**	231,853	233,508
Trade and other receivables	8	**6,879**	10,220	7,014
Inventories	9	**5,691**	-	2,390
Deferred tax		**3,111**	-	3,169
		256,633	242,142	246,146
Current assets				
Inventories	9	**8,254**	10,255	7,620
Assets held for sale	5	**-**	776	-
Trade and other receivables	8	**11,620**	16,053	17,535
Cash and cash equivalents		**26,827**	24,216	28,453
		46,701	51,300	53,608
Total assets		**303,334**	293,442	299,754
Liabilities				
Current liabilities				
Trade and other payables		**(3,460)**	(2,121)	(3,044)
Current tax liabilities		**(7)**	(1,223)	-
Provisions		**(279)**	(785)	(761)
Liabilities directly associated with assets classified as held for sale	5	**-**	(44)	-
		(3,746)	(4,173)	(3,805)
Net current assets		**42,955**	47,127	49,803
Non-current liabilities				
Trade and other payables		**-**	(2)	-
Provisions	10	**(6,509)**	(5,943)	(6,776)
Deferred tax	4	**(5,861)**	(4,553)	(4,055)
		(12,370)	(10,498)	(10,831)
Total liabilities		**(16,116)**	(14,671)	(14,636)
Net assets		**287,218**	278,771	285,118
Equity				
Called up share capital		**28,115**	28,115	28,115
Share premium account		**555,090**	555,090	555,090
Other reserves		**5,740**	4,237	5,692
Retained deficit		**(301,727)**	(308,671)	(303,779)
Total equity		**287,218**	278,771	285,118

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Condensed Consolidated Statement of Changes in Equity

	Called up share capital $000	Share premium account $000	Foreign exchange reserve $000	Other reserves $000	Retained deficit $000	Total $000
As at 1 January 2012 (audited)	28,115	555,090	160	4,273	(315,420)	272,218
Profit for the period	-	-	-	-	6,749	6,749
Exchange differences	-	-	(196)	-	-	(196)
As at 1 July 2012 (unaudited)	28,115	555,090	(36)	4,273	(308,671)	278,771
Changes in equity	-	-	1,455	-	4,892	6,347
As at 1 January 2013 (audited)	**28,115**	**555,090**	**1,419**	**4,273**	**(303,779)**	**285,118**
Profit for the period	**-**	**-**	**-**	**-**	**2,052**	**2,052**
Exchange differences	**-**	**-**	**48**	**-**	**-**	**48**
As at 30 June 2013 (unaudited)	**28,115**	**555,090**	**1,467**	**4,273**	**(301,727)**	**287,218**

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Condensed Consolidated Cash Flow Statement

	Note	**6 months 30 Jun 13 (unaudited) $000**	6 months 30 Jun 12 (unaudited) $000	12 months 31 Dec 12 (audited) $000
Operating activities				
Cash from operations	12	**16,588**	18,448	33,119
Interest paid		**(3)**	(4)	(7)
Taxation paid		**(1,046)**	(442)	(2,042)
Interest received		**412**	437	1,003
Net cash from operating activities		**15,951**	18,439	32,073
Investing activities				
Proceeds from sale of discontinued operations		**-**	-	764
Purchase tax payment relating to sale of discontinued operation		**-**	-	2,522
Purchase of property, plant and equipment		**(11,331)**	(10,463)	(19,274)
Increase in related purchase tax receivable		**(2,458)**	(2,340)	(4,511)
Purchase of materials inventory		**(3,942)**	(1,126)	(3,115)
Proceeds from sale of materials inventory		**366**	115	664
Purchase of intangible assets		**(42)**	(160)	(197)
Equipment rental income		**58**	-	282
Proceeds from sale of property, plant and equipment		**23**	19	37
Net cash used in investing activities		**(17,326)**	(13,955)	(22,828)
Net (decrease) /increase in cash and cash equivalents		**(1,375)**	4,484	9,245
Cash and cash equivalents at beginning of period		**28,453**	19,705	19,705
Effect of foreign exchange rate changes		**(251)**	39	(497)
Cash and cash equivalents at end of period		**26,827**	24,228*	28,453

* Includes cash balances within assets classified as held for sale of $12,000.

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Notes to the condensed consolidated financial statements

1. Basis of preparation

The Interim Report has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed set of financial statements included in this Interim Report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'. The accounting policies and methods of computation used in the Interim Report are consistent with those used in the Group's Annual Report and Accounts for the year ended 31 December 2012.

For the reasons outlined in the "Exposure to credit, liquidity and cash flow risk" set out in the Principal Risks and Uncertainties section, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis has been adopted in preparing the Interim Report.

The interim financial information for the six months ended 30 June 2013 and 30 June 2012 is unaudited and does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The auditor has carried out a review of the interim financial information for the period ended 30 June 2013 and their report is shown at the end of this announcement.

The information for the year ended 31 December 2012 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006, but has been derived from those accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not draw any attention to any matters by way of an emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Segment information

The Group's only class of business activity is oil and gas exploration, development and production. The Group's primary operations are located in Ukraine, with its head office in the United Kingdom. These geographical segments are the basis on which the Group reports its segment information. The segment result as presented represents operating profit before depreciation, amortisation and share based charges.

Details of the Group's discontinued operations can be found in Note 5.

6 months to 30 June 13 (unaudited)

	Ukraine $000	United Kingdom $000	Total continuing operations $000
Gas sales	**15,161**	**-**	**15,161**
Condensate sales	**4,490**	**-**	**4,490**
Total sales (incl. sales to third parties)	**19,651**	**-**	**19,651**
Segment result	**11,536**	**(1,258)**	**10,278**
Depreciation and amortisation			**(5,582)**
Operating profit			**4,696**
Segment assets	**283,753**	**19,581**	**303,334**
Capital additions	**12,964**	**4**	**12,968**

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6 months to 30 June 12 (unaudited)

	Ukraine $000	United Kingdom $000	Total continuing operations $000	Discontinued operations* $000	Total $000
Gas sales	16,471	-	16,471	213	16,684
Condensate sales	5,562	-	5,562	-	5,562
Total sales (incl. sales to third parties)	22,033	-	22,033	213	22,246
Segment result	14,891	(1,528)	13,363	(101)	13,262
Depreciation and amortisation			(4,603)	-	(4,603)
Operating profit / (loss)			8,760	(101)	8,659
Segment assets	270,009	22,657	292,666	776	293,442
Capital additions	11,142	-	11,142	-	11,142

12 months to 31 December 12 (audited)

	Ukraine 2012 $000	United Kingdom 2012 $000	Total continuing operations 2012 $000	Total discontinued operations* 2012 $000	Total 2012 $000
Turnover					
Gas sales	30,893	-	30,893	213	31,106
Condensate sales	10,210	-	10,210	-	10,210
Total sales (incl. sales to third parties)	41,103	-	41,103	213	41,316
Segment result	25,240	(3,790)	21,450	(176)	21,274
Depreciation and amortisation			(11,244)	-	(11,244)
Operating profit			10,206	(176)	10,030
Segment assets	272,878	26,876	299,754	-	299,754
Capital additions	19,433	-	19,433	-	19,433

* Discontinued operations relate to operations in Romania (see Note 5).

3. Finance costs

Included within finance costs is a charge for the discounting of long term receivables (see Note 8) of $245,000 (1H 2012: finance income from the unwinding of the discount of $1,759,000).

4. Taxation

The overall Income Statement charge for taxation for the period from continuing operations was $2,332,000 (1H 2012: $3,731,000) which comprises a deferred taxation charge of $1,864,000 (1H 2012: $2,085,000) and current income tax of $468,000 (1H 2012: $1,646,000).

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The movement in the period was as follows:

	6 months 30 Jun 13 (unaudited) $000	6 months 30 Jun 12 (unaudited) $000	12 months 31 Dec 12 (audited) $000
Deferred tax asset			
At beginning of period	**3,169**	-	-
Charged to income statement – current period	**(58)**	-	3,169
At end of period	**3,111**	-	3,169

	6 months 30 Jun 13 (unaudited) $000	6 months 30 Jun 12 (unaudited) $000	12 months 31 Dec 12 (audited) $000
Deferred tax liability			
At beginning of period	**4,055**	2,468	2,468
Charged to income statement - current period	**1,783**	2,085	2,774
Credited to income statement – prior period	**23**	-	(1,187)
At end of period	**5,861**	4,553	4,055

The current income tax expense together with the deferred tax charge, creates an effective tax rate for the period of 53% (1H 2012: 36%).

At 30 June 2013 and in gross terms, there were unrecognised deferred tax assets in respect of estimated UK tax losses carried forward of approximately $92 million (31 December 2012: $94million). The Directors consider it appropriate to recognise deferred tax assets, resulting from UK accumulated tax losses at 30 June 2013, to the extent that it is probable that there will be sufficient future taxable profits.

The deferred tax liability represents the tax effect of the temporary timing difference between the carrying value of the Group's developing and producing assets in Ukraine, and their tax base.

5. Discontinued operations

In July 2012, the Company completed the sale of its wholly-owned Romanian subsidiary, Regal Petroleum Romania SRL, which held a 50% non-operated interest in the Suceava concession in Romania.

6. Profit per ordinary share

The calculation of basic profit per ordinary share has been based on the profit for the period and 320,637,836 (1H 2012: 320,637,836) ordinary shares, being the average number of shares in issue for the period to 30 June 2013.

7. Property, plant and equipment

The Group's oil and gas development and producing assets in Ukraine are tested for an impairment loss at each balance sheet date. Following the impairment test carried out at 30 June 2013, the assets value in use continued to exceed the carrying amount of the assets, albeit reduced, so no impairment was recognised.

However, in light of the lower than anticipated production rates from the recently drilled wells, new geophysical studies are being undertaken, which together with the results of future wells and the well stimulation programme, may cause the Group to consider revising the current field development plan,

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which in turn may result in a lower estimation of the assets value in use, and potentially an impairment charge.

The depreciation charged for the period on the Group's oil and gas development and producing assets in Ukraine, included within the cost of sales, was $5,485,000 (1H 2012: $4,485,000). The increase in the charge is primarily due to the downward revision of the Group's estimated reserves as at 31 December 2012 assessed in the reserves report of ERC Equipoise Limited announced on 15 April 2013.

8. Trade and other receivables

Included within trade and other receivables is purchase tax receivable on capital expenditure and other costs in Ukraine of $14,583,000 (31 December 2012: $16,713,000), which is expected to be recovered via an offset against purchase tax payable on future sales in that country. Of this balance, purchase tax receivable expected to be recoverable within one year has been classified as current, and amounts to $7,704,000 (31 December 2012: $9,699,000).

9. Inventories

Inventories consist of materials used in the Group's drilling and capital investment programme, together with produced condensate held at the processing facility prior to sale. The increase in the total inventory balance primarily comprises equipment purchased for use in the upgrade of the gas processing facility and the construction of the LPG recovery unit, which are scheduled to be completed by the end of the first quarter of 2014.

Non-current inventory includes materials which will not be used in the drilling of the next development well.

10. Provisions

The non-current provision of $6,509,000 (31 December 2012: $6,776,000) represents a provision for the decommissioning of the Group's Ukraine production facilities and includes site restoration. It is based on the net present value of the Group's estimated liability. The net movement in this provision reflects a change in the cost estimate together with the effect of unwinding the discount. These costs are expected to be incurred by 2029.

11. Financial instruments

The Group held the following financial instruments at 30 June 2013. The fair value of the financial instruments is not materially different to the book value.

	30 Jun 13 (unaudited) $000
Financial assets	
Cash and cash equivalents	**26,827**
Trade and other receivables	**150**
	26,977

	30 Jun 13 (unaudited) $000
Financial liabilities	
Trade and other payables	**1,341**
Accruals	**491**
	1,832

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12. Reconciliation of operating profit to operating cash flow

	6 months 30 Jun 13 (unaudited) $000	6 months 30 Jun 12 (unaudited) $000	12 months 31 Dec 12 (audited) $000
Operating profit from continuing operations	**4,696**	8,760	10,206
Operating loss from discontinued operations	**-**	(101)	(176)
Depreciation, amortisation and impairment charges	**5,582**	4,603	11,244
Write down of inventory	**-**	-	671
Reversal of write down of inventory	**-**	-	(104)
Movement in provisions	**(482)**	45	21
Increase in operating stock	**(371)**	(96)	(79)
Decrease in debtors	**6,783**	5,628	10,786
Increase / (decrease) creditors	**380**	(391)	550
Net cash generated from operations	**16,588**	18,448	33,119

13. Related party transactions

During the period, Group companies entered into the following transactions with related parties which are not members of the Group, and are subsidiaries of the ultimate parent company:

	6 months 30 Jun 13 (unaudited) $000	6 months 30 Jun 12 (unaudited) $000	12 months 31 Dec 12 (audited) $000
Sale of goods / services	**174**	-	-
Purchase of goods / services	**695**	31	140
Amounts owed by related partied	**76**	-	-
Amounts owed to related parties	**137**	-	-

The amounts outstanding were unsecured and will be settled in cash.

During the period, the Group also held cash deposits with related party banks, which are subsidiaries of the ultimate parent company.

	6 months 30 Jun 13 (unaudited) $000	6 months 30 Jun 12 (unaudited) $000	12 months 31 Dec 12 (audited) $000
Interest received	**380**	421	966
Bank charges	**8**	9	16
Closing cash balance	**7,901**	8,142	7,186

14. Subsequent events

There are no events after the balance sheet which require adjustment or disclosure in these financial statements.

Press Release

INDEPENDENT REVIEW REPORT TO REGAL PETROLEUM PLC

We have been engaged by the Company to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related Notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
23 September 2013