

Interim Report 2009  
Six months ended 30 June





# Regal Petroleum plc

## Contents

- 02 Chief Executive's Review
- 04 Finance Review
- 06 Outlook
- 07 Condensed Consolidated Income Statement
- 08 Condensed Consolidated Statement of Comprehensive Income
- 09 Condensed Consolidated Balance Sheet
- 10 Condensed Consolidated Statement of Changes in Equity
- 11 Condensed Consolidated Cash Flow Statement
- 12 Notes
- 17 Independent Review Report to Regal Petroleum plc

**Regal is an independent United Kingdom based Group, focused on gas field development in Ukraine. In addition, the Group has oil and gas exploration assets in Romania and Egypt under appraisal.**

**The Company has worked diligently throughout the year to date to deliver against its promises.**

## Highlights

### Financing

Secondary placing on 1 July 2009 resulted in cash receipts of £63.4 million gross (\$105.1 million), with cash held on this date of \$161.4 million.

### Turnover

Turnover of \$8.7 million, up 30% on equivalent period last year.

### Production

Production and revenue expected to significantly increase in Q4 2009, with MEX-106 expected on test production in September 2009 and SV-58 in October 2009 through flow lines installed to the Regal MEX-GOL gas processing facility.

### Drilling

Drilling and completion of the first two “new generation” wells (MEX-106 and SV-58) using two new US-built, top-drive, rigs contracted via Saipem, are well advanced with MEX-106 being brought onto production test and SV-58 being prepared for completion, having reached total depth of 6,309 metres in September 2009.

### D Sands

As a result of data obtained during the drilling of the wells, it was decided to explore the top of the Devonian sequence (“D Sands”) found at the bottom of both wells.



## Chief Executive's Review

---

### David J Greer OBE, Chief Executive Officer

---

I am delighted to present Regal's Interim Report 2009 for the six months ended June 2009.

Despite the challenging economic backdrop and worldwide recession, the Company continued to work diligently throughout the first half of the year to sustain the momentum established last year and thus accomplish all of the key objectives for the period that were set out at the start of 2008. By combining a number of austerity measures with an additional equity placement, the Company has been able to avoid any requirement to stagnate or hibernate and has continued to grow through the current recession.

#### Ukraine

In Ukraine (Regal 100% owned and operated), the two tranches of equity financing that were raised in 2008 facilitated the successful importation by Saipem of two newly built, top-drive drilling rigs from the United States in late 2008 and the purchase of materials (long lead items) used for the new wells. This enabled Regal to spud its first two new-generation wells early in 2009. Both wells have been designed as production wells to exploit the known reserves of gas and condensate (169 MMboe 2P Ryder Scott Report 2005) in the Carboniferous, Visean age, reservoirs (the "B Sands") and to appraise and produce gas from the deeper Carboniferous, Tournasian age reservoirs (the "T Sands") which were discovered and tested in the Soviet era. As a result of data obtained during the drilling of the wells, it was decided to explore the top of the Devonian sequence ("D Sands") found at the bottom of both wells.

Having reached a total depth of 6,020 metres on 25 July 2009, it is anticipated that MEX-106 will be brought on stream in September 2009 once

production testing has been completed on the B, T and D Sands. The second new well, SV-58 which is currently being logged, has been drilled deeper and at a faster rate than MEX-106 through the B, T and D Sands to a depth of 6,309 metres, which was achieved on 12 September 2009, and is scheduled to come into production in October 2009. The rig that was used to drill MEX-106 has now been moved to the next well site to drill the third new generation well, SV-61, which was spud earlier this month and has already been drilled and cased to 1,145 metres. The fourth well, SV-66, is expected to be spud in November 2009 once the rig working on SV-58 has been released and relocated.

In addition, the first stage construction of a 3D subsurface model has been completed, following the acquisition in 2007/8 of approximately 200 km<sup>2</sup> of 3D seismic, now correlated to existing data from 22 historical wells. This has enabled the delineation of the deeper T and D Sands and the submission of revised work programmes on both licences which have been approved by the relevant authorities. Whilst MEX-106 has been designed to produce gas from the known B Sand reservoirs, it will also appraise the potential of the T Sands and explore the D Sands. SV-58 will similarly appraise and explore the T and D Sands, respectively, but since the well is further east of MEX-106, and given the gently downward-dipping structural trend, SV-58 has been drilled to a deeper depth by some 289 metres. Data from these two new wells will be used to refine the subsurface model further, the objective being to define additional resources and reserves. A third-party technical expert has been engaged to prepare an audited resource update incorporating these T and D Sand results. It is intended that these wells will be the first of many similar wells to be drilled over the coming decade or so, with each

one being used to further refine the model and, it is hoped, increase the success rate of subsequent wells drilled and thus expand the reserve base.

### **Egypt**

In Egypt (Regal 25%; non-operated), the main activity undertaken in the first half of 2009 was a workover on the ERB-A-1X well to replace an electrical submersible pump installed in late 2007. However, owing to delays in the arrival of material and equipment, the workover slipped into July 2009 with only the installation of additional surface equipment for the treatment of high sulphur content completed at that time. Subsequently technical problems relating to debris in the well has indicated the requirement for a heavier rig than the workover rig at the well site and accordingly a revised work programme is under consideration.

### **Romania**

In Romania, the Company has been progressing limited exploration work on its Barlad Concession (Regal 100% owned and operated) where it is planned to acquire 48 km of 2D seismic and drill a further gas exploration well (RBN-5) to discharge the remaining work programme commitment on the concession. It is intended to acquire the seismic data in Q1 2010 and to confirm a proposed location on a modest sized shallow gas prospect in the area near to Regal's RBN-4 discovery of late 2007.

In the Suceava Concession (Regal 50%; Aurelian Oil & Gas Plc 50% and operator) also in Romania, the 2D seismic data acquired during 2009 has enabled the identification of a modest sized gas prospect 2.5 km to the east of the Vicsani discovery in the neighbouring Brodina concession, also operated by Aurelian Oil & Gas Plc. It is intended to drill a shallow gas well to meet the remaining work programme obligations for the concession, and to develop any reserves via a pipeline through the Vicsani location to produce gas into the Bilca production facility.

Work has established that the Vicsani field in the adjacent Brodina concession extends into the Suceava concession and further work to assess the relative contribution of reserves from the Suceava and Brodina concessions respectively is currently under way. A unitisation agreement is being contemplated based on an independent third party assessment of the relevant data, and is anticipated that a net share of between 7.5% and 15% of the field's production will be assigned to Regal on settlement of a proportional contribution to the historic cost associated with this field.

A feasibility study is under way to determine the economic viability of purchasing a mobile gas turbine in order to sequentially use the gas in the Suceava discoveries, Dornesti-1 and SE-1, the Barlad discovery, RBN-4 (and RBN-5 if applicable), and an Aurelian Oil & Gas Plc discovery on its nearby Cuejdiu concession. Due to the costs of gas treatment facilities and the distance to points of export, none of these small fields are large enough to justify a dedicated gas production development project. However, by treating them as an asset portfolio capable of supplying electricity, a low risk revenue stream is anticipated.

### **Growth**

In all of the Company's assets, the continued pace of development in these challenging recessionary times has been secured thanks to a combination of a number of austerity measures that have been taken by the Company plus the very welcome support of Regal's shareholders following the additional secondary placing that closed on 1 July 2009. As a consequence, the Company has not only been able to survive the current recession but to continue to grow through it and remain on track to realising the full potential of its Ukrainian and other assets.



## Finance Review

### Robert Wilde Finance Director

Regal's key financial achievement since the year end 2008 was the raising of £63.4 million (\$105.1 million) (gross) through a secondary placing of 104 million shares which closed on 1 July 2009 at a placing price of 61 pence, bolstering cash held to \$161.4 million on this date. The Company continues to hold no debt.

Revenue for the period, at \$8.7 million, is up 30% on the same period last year, whilst the operating loss has been reduced from \$10.1 million to \$6.0 million, partly helped by an austere overhead cutting exercise.

Gas and condensate production volumes rose by 49% and 53%, respectively, from the same period last year to 154 Mm<sup>3</sup>/day and 264 bpd following the workover of the MEX-102 well in November 2008. Realised gas prices increased to \$241/Mm<sup>3</sup> for the first six months of 2009 from \$193/Mm<sup>3</sup> for the same period in 2008 as Ukraine continued to see the erosion of the discount it has enjoyed for imported gas from Russia, compared to European market prices. However, this positive upward pressure was partly countered by a 54% fall in condensate prices, reflecting the worldwide decline in oil prices in the first half of 2009. Production is expected to increase significantly in the fourth quarter of 2009 when MEX-106 and SV-58 are expected to be on production. This should increase revenues materially in the second half of 2009.

Almost \$50.0 million was invested in the first six months of 2009 in property, plant, equipment ("PP&E") and inventory. The Consolidated Balance Sheet at 30 June 2009 reflects these substantial changes from the end of last year with the carrying value of PP&E reaching \$107.6 million and stock held for future drilling of \$22.1 million

(31 December 2008: \$61.6 million and \$19.0 million, respectively). This capitalised expenditure relates mostly to drilling operations and inventories held for drilling future wells. It also includes investment in the subsurface model and the high pressure gas pipeline which was upgraded in readiness for the export from the Ukrainian licence areas of increased gas production.

#### Principal Risks and Uncertainties

The Board confirms that the principal risks and uncertainties facing the Company have not materially changed since the publication of the Annual Report and Accounts for the year ended 31 December 2008 (on pages 17-20). These key risks are set out in more detail in the Annual Report, and can be summarised as follows:

#### **Health, Safety, Environment and Security –**

HSES is reviewed at every Board Meeting and is a key focus of management and personnel at regular operational and management meetings.

#### **Financial Markets and Global Economic**

**Outlook –** The economies of the UK, Ukraine, Romania and Egypt have all been subject to recessionary pressures during the period, the most significant being the ability for the Company to access development funding in such a constrained liquidity environment. The placing on 1 July 2009 in which \$105.1 million (gross) was raised will enable further wells to be drilled, with the subsequent production and consequential revenue growth anticipated therefrom. The Company may be exposed to increased counterparty risk as a result of business failures in the countries in which it operates and will continue to be exposed if counterparties fail or are unable to meet their contractual obligations to the Group.

**Risks relating to Ukraine, Romania and Egypt**

– Emerging markets such as these are subject to greater risks than more developed markets including, in some cases, significant legal, economic and political risks. Such economies may also be subject to rapid change and the Group endeavours to adapt and change accordingly.

**Technical and Geological** – Constant work and analysis of the subsurface is ongoing to minimise drilling risk. However, the drilling of exploration, appraisal and development wells contain the inherent risk that commercially productive hydrocarbon reservoirs may not be encountered, or that mechanical or reservoir control issues may prevent the successful delivery of results. Furthermore, producing gas and condensate reservoirs are generally characterised by declining production rates that vary depending upon reservoir and other characteristics. Any future gas and condensate production and, therefore, the Group's cash flow are highly dependent on the Group's success in efficiently developing and exploiting any reserves and finding or acquiring additional reserves. The Group's ability to continue growing the business is a function of these cash flows in addition to funds raised through the equity raisings or debt.

**Oil Price** – The Company currently derives its revenue from the sale of Ukrainian gas and condensate. These revenues are subject to oil price volatility and political policy. A prolonged period of low oil and gas prices could impact the Group's ability to maintain its long term investment programme, reduce the ability to deliver future shareholder returns and reduce the amount of gas and condensate that the Group can produce economically.

**Development Timing, Cash Flow and Going Concern Risk**

– Reference is made above to future aspirations regarding the timing of wells and production. Any delay in the schedule is likely to impact operational cash generated and, therefore,

reduce the up-front funding available for further development investment. Much of the funding needed to finance the desired level of future capital expenditure under a phased development plan is expected to be derived from future operational cash generated from production from wells to be drilled. After taking into consideration the capital raised from the placing of ordinary shares on 1 July 2009, the Company believes that it has sufficient funds to enable the Company to continue as a going concern for the foreseeable future.

**Currency** – The majority of underlying costs and revenues are in US Dollar and Euro, but with significant elements being exposed to local currencies. Where possible, risks relating to local currencies are mitigated contractually by tying costs to the Euro and US Dollar. The funds raised from the placing of new shares in 2008 and 2009 were largely in Sterling. Where practical, a significant proportion of these funds were converted into relevant currencies, when known, to match the currency of future expected need. Much of these funds were converted soon after receipt.

**Industry** – The Company's ability to execute its strategy is subject to risks that 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, 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 be able to produce gas, oil or condensate from these or any other potential drilling locations. 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 as expected for a variety of factors.



## Outlook

As with so many companies, the first half of 2009 was a period of real uncertainty as the Company's plans for the long term development of its Ukrainian gas and condensate field were frustrated by a lack of sufficient or reasonably priced debt capital or value-adding industry partnership proposals to grow the business. The Company believes that this funding uncertainty was a significant contributor to the share price decline during this period.

Much of the period was focused on two items. Firstly, safeguarding the continued drilling of the first two new generation wells and, secondly, implementing austerity measures to cut costs, defer all but essential capital expenditure and thereby ensure that the Company survived the worst of these times as a going concern. These austerity measures plus the capital raising in July this year have been fundamental in shifting focus towards a continued growth strategy, with wells SV-61 having been spud earlier this month and SV-66 scheduled to be spud immediately after SV-58 is completed.

The overall outlook for the Company in Q3/Q4 2009 is therefore encouraging and the Company anticipates improved earnings during the next year. The Company has worked diligently throughout the year to deliver against its promises and is now expected to increase production from an average of 1,170 boepd in 1H09 to over 3,000 boepd by the end of 2009. With production set to significantly increase from existing rates, an additional two new wells being drilled and a new resource update all due in Q3/Q4 2009, the future outlook for the Company looks promising.

## Condensed Consolidated Income Statement

	Notes	6 months 30 Jun 09 (unaudited) \$000	6 months 30 Jun 08 (unaudited)* \$000	12 months 31 Dec 08 (audited) \$000
Revenue	2	<b>8,682</b>	6,656	11,450
Cost of sales		<b>(3,041)</b>	(3,368)	(5,667)
<b>Gross profit</b>		<b>5,641</b>	3,288	5,783
Other administrative expenses		<b>(7,095)</b>	(8,426)	(18,023)
Share based charge		<b>(4,558)</b>	(3,954)	(9,120)
Total administrative expenses		<b>(11,653)</b>	(12,380)	(27,143)
Other operating expenses: exploration costs written off		<b>-</b>	(997)	(3,467)
<b>Operating loss</b>		<b>(6,012)</b>	(10,089)	(24,827)
Investment revenue		<b>569</b>	2,536	5,501
Finance costs		<b>(75)</b>	(503)	(525)
Other gains and losses: foreign exchange		<b>2,022</b>	3,247	(28,888)
<b>Loss on ordinary activities before taxation</b>		<b>(3,496)</b>	(4,809)	(48,739)
Income tax expense	3	<b>(4,075)</b>	(455)	(2,074)
<b>Loss for the financial period</b>		<b>(7,571)</b>	(5,264)	(50,813)
<b>Loss per ordinary share (cents)</b>				
Basic and diluted	4	<b>(3.6)</b>	(2.8)	(25.6)

The Income Statement has been prepared on the basis that all operations are continuing operations.

\* Restated, as explained in Note 1.



## Condensed Consolidated Statement of Comprehensive Income

	<b>6 months 30 Jun 09 (unaudited) \$000</b>	6 months 30 Jun 08 (unaudited)* \$000	12 months 31 Dec 08 (audited) \$000
Equity – foreign currency translation	<b>(1,123)</b>	1,126	(2,028)
Net expense recognised directly in equity	<b>(1,123)</b>	1,126	(2,028)
Loss for the financial period	<b>(7,571)</b>	(5,264)	(50,813)
<b>Total comprehensive income for the period</b>	<b>(8,694)</b>	(4,138)	(52,841)

\* Restated, as explained in Note 1.

## Condensed Consolidated Balance Sheet

	Notes	30 Jun 09 (unaudited) \$000	30 Jun 08 (unaudited)* \$000	31 Dec 08 (audited) \$000
<b>Assets</b>				
<b>Non-current assets</b>				
Trade and other receivables	5	1,830	—	—
Intangible assets		25,622	29,532	26,200
Property, plant and equipment		107,568	40,680	61,588
		<b>135,020</b>	70,212	87,788
<b>Current assets</b>				
Inventories		22,070	2,168	19,021
Trade and other receivables	5	10,574	9,576	7,507
Cash and cash equivalents		60,021	134,370	106,078
		<b>92,665</b>	146,114	132,606
<b>Total assets</b>		<b>227,685</b>	216,326	220,394
<b>Liabilities</b>				
<b>Current liabilities</b>				
Current tax liabilities		—	—	(171)
Trade and other payables		(15,258)	(4,623)	(9,038)
		<b>(15,258)</b>	(4,623)	(9,209)
<b>Net current assets</b>		<b>77,407</b>	141,491	123,397
<b>Non-current liabilities</b>				
Trade and other payables		(76)	(38)	(101)
Provisions		(3,802)	(1,200)	(2,358)
Deferred tax	3	(7,052)	(1,662)	(3,093)
		<b>(10,930)</b>	(2,900)	(5,552)
<b>Total liabilities</b>		<b>(26,188)</b>	(7,523)	(14,761)
<b>Net assets</b>		<b>201,497</b>	208,803	205,633
<b>Equity</b>				
Called up share capital		19,094	18,205	19,094
Share premium account		462,249	423,404	462,249
Other reserves		20,818	15,444	17,383
Profit and loss account		(300,664)	(248,250)	(293,093)
<b>Total equity</b>		<b>201,497</b>	208,803	205,633

\* Restated, as explained in Note 1.



## Condensed Consolidated Statement of Changes in Equity

	Called up share capital \$000	Share premium account \$000	Share option reserve \$000	Foreign exchange reserve* \$000	Other reserves \$000	Profit and loss account* \$000	Total \$000
As at 1 January 2008 (audited)	12,378	265,899	3,845	4,563	4,273	(245,303)	45,655
Changes in equity	5,827	157,505	1,637	1,126	–	(2,947)	163,148
As at 1 July 2008 (unaudited)	18,205	423,404	5,482	5,689	4,273	(248,250)	208,803
Changes in equity	889	38,845	5,093	(3,154)	–	(44,843)	(3,170)
<b>As at 1 January 2009 (audited)</b>	<b>19,094</b>	<b>462,249</b>	<b>10,575</b>	<b>2,535</b>	<b>4,273</b>	<b>(293,093)</b>	<b>205,633</b>
<b>Loss for the period Current period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(7,571)</b>	<b>(7,571)</b>
<b>IFRS 2 charge</b>	<b>–</b>	<b>–</b>	<b>4,558</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4,558</b>
<b>Exchange differences</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1,123)</b>	<b>–</b>	<b>–</b>	<b>(1,123)</b>
<b>As at 30 June 2009 (unaudited)</b>	<b>19,094</b>	<b>462,249</b>	<b>15,133</b>	<b>1,412</b>	<b>4,273</b>	<b>(300,664)</b>	<b>201,497</b>

\* Restated for June 2008, as explained in Note 1.

## Condensed Consolidated Cash Flow Statement

	Notes	6 months 30 Jun 09 (unaudited) \$000	6 months 30 Jun 08 (unaudited)* \$000	12 months 31 Dec 08 (audited) \$000
<b>Operating activities</b>				
Cash from/(used in) operations	6	1,903	(8,664)	(13,159)
Interest paid		(25)	(160)	(193)
Taxation paid		(343)	(315)	(302)
<b>Net cash from/(used in) operating activities</b>		<b>1,535</b>	(9,139)	(13,654)
<b>Investing activities</b>				
Purchase of property, plant and equipment		(46,227)	(13,654)	(28,348)
Purchase of intangible assets		(378)	(5,119)	(8,244)
Purchase of materials inventory		(3,082)	(1,916)	(18,797)
<b>Net cash used in investing activities</b>		<b>(49,687)</b>	(20,689)	(55,389)
<b>Financing activities</b>				
Proceeds from borrowings		-	1,500	1,500
Settlement of borrowings		-	(10,500)	(10,500)
Funds received in connection with share options		-	-	7,075
Proceeds from issue of equity		-	169,751	206,030
Payment for share issue costs		-	(7,896)	(9,407)
Interest received on surplus funds from share issue		696	2,515	5,364
<b>Net cash from financing activities</b>		<b>696</b>	155,370	200,062
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(47,456)</b>	125,542	131,019
<b>Cash and cash equivalents at beginning of period</b>		<b>106,078</b>	5,565	5,565
Effect of foreign exchange rate changes		1,399	3,263	(30,506)
<b>Cash and cash equivalents at end of period</b>		<b>60,021</b>	134,370	106,078

\* Restated, as explained in Note 1.



# Notes to the Condensed Consolidated Financial Statements

## 1. Basis of preparation

The interim financial 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 financial report has 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 2008 annual report and accounts for the year ended 31 December 2008 with the exception of the adoption of the following new or revised standards:

- IFRS 8 Operating Segments – Segmental information is required to be disclosed on a basis consistent with the information which is presented to the key decision maker. The adoption of IFRS 8 has not resulted in a change to the Group's reportable segments.
- IAS 1 (Revised) Presentation of Financial Statements – IAS 1 (Revised) requires the presentation of a statement of changes in equity as a primary statement and a statement of other comprehensive income.

Following the decision to change the functional currency to US Dollars of two of the Group's Ukrainian subsidiaries and classify materials separately as inventory, adopted in the 2008 annual report and accounts and with effect from 1 January 2008, some of the 2008 comparative figures for the period to June 2008 have been restated to ensure consistent comparison. This decision was made as a result of the increasing influence of the US Dollar on operations. Similarly, the fixed asset comparatives for 30 June 2008 have been restated owing to certain revisions to estimated future capital expenditure in Ukraine as identified during the review last year of the life of field development plans. This had an effect on the depreciation charge from 1 January 2008.

The result is a reduction to net assets of \$5.3 million at 30 June 2008, of which the material component is a reduction in oil and gas development costs of \$7.3 million. It also results in corresponding charges to other reserves at 30 June 2008 and the income statement for the first half of 2008 of \$3.4 million and \$1.9 million respectively. The income statement impact represents additional depreciation of \$0.5 million together with a \$1.4 million reduction in exchange gains.

As explained in the Finance Review on page 5, 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 2009 and 30 June 2008 is unaudited and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985 and section 434 of the Companies Act 2006. The auditors have carried out a review of the interim financial information for the period ended 30 June 2009 and their report is shown on page 17.

The information for the year ended 31 December 2008 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified, did not include any emphasis of matter and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

## 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, Romania and Egypt, with its head office in the United Kingdom. These geographical segments are the basis on which the Group reports its segment information. There are no inter-segment sales within the Group and all products are sold in the geographical region within which they are produced.

### 6 months to 30 June 2009 (unaudited)

	Ukraine \$000	United Kingdom \$000	Romania \$000	Egypt \$000	Total \$000
Gas sales	<b>6,706</b>	–	–	–	<b>6,706</b>
Condensate sales	<b>1,976</b>	–	–	–	<b>1,976</b>
Total sales (and sales to third parties)	<b>8,682</b>	–	–	–	<b>8,682</b>
Operating profit/(loss)	<b>3,712</b>	<b>(9,448)</b>	<b>(43)</b>	<b>(233)</b>	<b>(6,012)</b>
Investment revenue					<b>569</b>
Finance costs					<b>(75)</b>
Other gains and losses: foreign exchange					<b>2,022</b>
Loss for the period before tax					<b>(3,496)</b>
Segment assets	<b>141,538</b>	<b>60,014</b>	<b>21,024</b>	<b>5,109</b>	<b>227,685</b>
Segment liabilities <sup>1</sup>	<b>(22,665)</b>	<b>(2,791)</b>	<b>(227)</b>	<b>(505)</b>	<b>(26,188)</b>
Capital additions	<b>47,558</b>	<b>47</b>	<b>72</b>	<b>399</b>	<b>48,076</b>

### 6 months to 30 June 2008 (unaudited)\*

	Ukraine \$000	United Kingdom \$000	Romania \$000	Egypt \$000	Total \$000
Gas sales	3,615	–	–	–	3,615
Condensate sales	3,041	–	–	–	3,041
Total sales (and sales to third parties)	6,656	–	–	–	6,656
Operating profit/(loss)	1,360	(10,218)	(352)	(879)	(10,089)
Investment revenue					2,536
Finance costs					(503)
Other gains and losses: foreign exchange					3,247
Loss for the period before tax					(4,809)
Segment assets	49,512	136,487	26,275	4,052	216,326
Segment liabilities <sup>1</sup>	(3,323)	(3,240)	(604)	(356)	(7,523)
Capital additions	7,754	62	2,004	1,219	11,039

\* Restated, as explained in Note 1.



# Notes to the Condensed Consolidated Financial Statements

continued

## 2. Segment information continued

### 12 months to 31 December 2008 (audited)

	Ukraine \$'000	United Kingdom \$'000	Romania \$'000	Egypt \$'000	Total \$'000
Gas sales	6,625	–	–	–	6,625
Condensate sales	4,825	–	–	–	4,825
Total sales (and sales to third parties)	11,450	–	–	–	11,450
Operating profit / (loss)	1,215	(21,878)	(2,982)	(1,182)	(24,827)
Investment revenue					5,501
Finance costs					(525)
Other gains and losses: foreign exchange					(28,888)
Loss for the period before tax					(48,739)
Segment assets	88,654	104,658	22,273	4,809	220,394
Segment liabilities <sup>1</sup>	(6,234)	(7,552)	(222)	(753)	(14,761)
Capital additions	29,984	229	4,361	2,036	36,610

<sup>1</sup> Under IAS 14, taxation liabilities were categorised as unallocated. In accordance with IFRS 8, taxation liabilities for all periods shown are included in individual segments in order to be consistent with internal reporting.

## 3. Taxation

The Income Statement charge for taxation of \$4,075,000 (31 December 2008: \$2,074,000) comprises deferred taxation of \$3,959,000 (31 December 2008: \$1,860,000) and current income tax of \$116,000 (31 December 2008: \$214,000).

The deferred tax liability arises as a result of temporary differences between the carrying values and tax bases of fixed assets in Ukraine. The movement in the period is as follows:

	<b>6 months 30 Jun 09 (unaudited) \$'000</b>	6 months 30 Jun 08 (unaudited) \$'000	12 months 31 Dec 08 (audited) \$'000
At beginning of period	<b>3,093</b>	1,233	1,233
Charged to income statement	<b>3,959</b>	429	1,860
At end of period	<b>7,052</b>	1,662	3,093

The directors do not consider it appropriate to provide for any deferred tax asset to reflect the potential benefit arising from temporary differences at 30 June 2009 as there is insufficient evidence of future taxable profits. At 30 June 2009, and in gross terms, there were unrecognised deferred tax assets in respect of estimated UK tax losses carried forward of up to \$165 million (31 December 2008: \$150 million) and other differences amounting to \$0.6 million (31 December 2008: \$0.5 million).

#### 4. Loss per ordinary share

The calculation of basic loss per ordinary share has been based on the loss for the period and 211,645,664 (2008: 184,877,567) ordinary shares, being the average number of shares in issue for the periods to 30 June 2009 and 30 June 2008 respectively. As the exercise of options would be anti-dilutive they have been excluded from the computation of diluted loss per share.

On 1 July 2009 the Company issued 104,000,000 new ordinary shares of 5 pence each bringing the total shares in issue on this date to 315,645,664. Had these shares been in place since the beginning of the financial period, the loss per ordinary share for the period would have been 2.4 cents.

#### 5. Trade and other receivables

Included within trade and other receivables is VAT receivable on capital expenditure of \$10,971,000 (2008: \$816,000). VAT expected to be recoverable within one year has been classified as current, and amounts to \$9,141,000 (2008: \$816,000).

#### 6. Reconciliation of operating loss to operating cash flow

	<b>6 months 30 Jun 09 (unaudited) \$000</b>	6 months 30 Jun 08 (unaudited)* \$000	12 months 31 Dec 08 (audited) \$000
Operating loss	<b>(6,012)</b>	(10,089)	(24,827)
Depreciation, amortisation and impairment charges	<b>1,665</b>	1,022	2,022
Movement in provisions	<b>41</b>	(430)	(1,249)
(Increase)/decrease in inventories	<b>(2)</b>	45	73
(Increase)/decrease in trade and other receivables	<b>(3,137)</b>	312	(233)
Increase/(decrease) in trade and other payables	<b>4,790</b>	(4,475)	(1,532)
Share option charge	<b>4,558</b>	3,954	9,120
Exploration costs written off	<b>-</b>	997	3,467
Net cash generated from/(used in) operations	<b>1,903</b>	(8,664)	(13,159)

\* Restated, as explained in Note 1.

#### 7. Capital commitments

Amounts contracted in relation to the Ukraine field development but not provided for in the financial statements at 30 June 2009 are \$1,909,000 (31 December 2008: \$2,090,000). In addition, the Group has entered into five year contracts with Saipem SpA for the provision of two rigs. The contracts for these rigs have a break clause after two years which, if exercised, result in a commitment into 2010 of \$69,686,000 (31 December 2008: \$103,554,000). However, it should be emphasised that the Group has the ability to subcontract these rigs which is likely to mitigate any exposure.



## Notes to the Condensed Consolidated Financial Statements

continued

### 8. Subsequent events

On 1 July 2009 the Company completed the placing of 104,000,000 new ordinary shares of 5 pence each, raising \$105,110,000 before expenses. The total number of ordinary shares in issue following completion of the placing, and the total number of voting rights, was 315,645,664.

On 13 July 2009, the Board agreed, following a review of the Company's existing incentive and reward scheme by the Company's Remuneration Committee, to move away from the use of options. As a result, it was agreed to afford certain directors and senior employees holding options under the Company's existing Share Option Scheme the opportunity to surrender their existing options, in full, in exchange for the grant of awards under a new Long-Term Incentive Plan (the "LTIP") and to grant additional awards in respect of 2009 under the LTIP. A total of 9,490,000 share options (the "Options"), of which 3,365,000 had already vested, were surrendered in exchange for awards to certain directors and senior employees, over 3,436,000 ordinary shares of 5 pence each ("Ordinary Shares") under the LTIP (the basis of the exchange having been determined, *inter alia*, using an indicative Black Scholes Option pricing analysis of the value of the holder's existing Options). Awards over a further 2,853,125 Ordinary Shares have been granted under the LTIP in respect of 2009. The LTIP awards are time and performance based.

# Independent Review Report to Regal Petroleum plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated statement of comprehensive income, the condensed consolidated cash flow statement and related notes 1 to 8. 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 financial statements.

This report is made solely to the Group 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 them 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 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 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 financial statements in the half-yearly financial report for the six months ended 30 June 2009 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  
London, United Kingdom  
15 September 2009



---

## Notes

---

## Notes

---



---

## Notes

---

# Corporate Directory

## Company Secretary and Registered Office

### **C Phillips**

Lansdowne House  
57 Berkeley Square  
London W1J 6ER  
United Kingdom

## Auditors

### **Deloitte LLP**

2 New Street Square  
London EC4A 3BZ  
United Kingdom

## Bankers

### **Bank of Scotland Corporate**

London Chief Office  
155 Bishopsgate  
London EC2M 3YB  
United Kingdom

## Solicitors

### **Pinsent Masons LLP**

City Point  
1 Ropemaker Street  
London EC2Y 9AH  
United Kingdom

## Nominated Advisor

### **Strand Partners Limited**

26 Mount Row  
London W1K 3SQ  
United Kingdom

## Joint Broker

### **Mirabaud Securities Limited**

21 St James's Square  
London SW1Y 4JP  
United Kingdom

## Joint Broker

### **Merrill Lynch International**

Merrill Lynch Financial Centre  
2 King Edward Street  
London EC1A 1HQ  
United Kingdom

## Joint Broker

### **RBS Hoare Govett**

250 Bishopsgate  
London EC2M 4AA  
United Kingdom

## Share Registry

### **Computershare Investors Services PLC**

The Pavilions  
Bridgwater Road  
Bristol BS99 6ZY  
United Kingdom

## PR Advisors

### **Citigate Dewe Rogerson**

3 London Wall Buildings  
London EC2M 5SY  
United Kingdom

## Glossary

### **Mm<sup>3</sup>**

thousand cubic metres

### **Mm<sup>3</sup>/d**

thousand cubic metres per day

### **bpd**

barrels per day

### **boepd**

barrels of oil equivalent per day

### **MMboe**

million barrels of oil equivalent

### **\$**

United States Dollar

Lansdowne House  
57 Berkeley Square  
London W1J 6ER  
United Kingdom  
T +44 (0)20 7408 9500  
F +44 (0)20 7408 9501

[www.regalpetroleum.co.uk](http://www.regalpetroleum.co.uk)