
Press Release

27 August 2019

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

Amendment to Agreement for Gas Sales to Related Party

Regal Petroleum plc (AIM: RPT), the AIM-quoted oil and gas exploration and production group, announces that it has agreed an amendment to the terms upon which it sells its gas production to LLC Smart Energy ("Smart Energy").

As announced on 30 June 2017, Regal entered an agreement to sell all of its gas production from its Mekhediviska-Golotvshinska (MEX-GOL), Svrydivske (SV) and Vasyshevskoye (VAS) fields in Ukraine to Smart Energy.

Smart Energy has oil and gas operations in Ukraine and is part of the PJSC Smart-Holding Group, which is ultimately controlled by Mr Vadym Novynskyi, who also controls an indirect 82.65% majority shareholding in Regal. As such, Smart Energy is considered to be a related party of Regal pursuant to the AIM Rules for Companies ("AIM Rules").

The arrangement came about following the introduction of a number of new provisions into the Ukrainian Tax Code by the Ukrainian Government, including transfer pricing regulations for companies operating in Ukraine. The introduction of those new regulations meant that there was and continues to be an increased regulatory burden on affected companies in Ukraine who have to prepare and submit reporting information to the Ukrainian Tax Authorities.

Due to the corporate structure of the Regal Group, a substantial proportion of Regal's gas production is produced by a non-Ukrainian subsidiary of the Company, which under the revised tax regulations, placed additional reporting burdens on each of Regal's potential customers who may have been less inclined to purchase Regal's gas and/or may seek discounts on sales prices.

As a result, an agreement was reached in June 2017 between Regal and Smart Energy for Smart Energy to purchase all of Regal's gas production and assume responsibility for the regulatory obligations under the Ukrainian tax regulations. Smart Energy also agreed to combine Regal's gas production with its own gas production, and to sell such gas as combined volumes, which has resulted in higher sales prices due to the larger sales volumes. The terms of sale for Regal's gas to Smart Energy are (i) payment for one third of gas delivered by the 20th of the month of delivery, and (ii) payment of the remaining balance by the 10th of the month following the month of delivery.

Under the agreement, in order to cover Smart Energy's sales, administration and regulatory compliance costs, Regal agreed to sell its gas to Smart Energy at a discount of 0.5% to the gas sales prices achieved by Smart Energy. However, due to changes in the regulatory regime in Ukraine which has increased the burden of administration and regulatory compliance obligations involved in the sale of gas, and in order to ensure that Regal is compliant with current transfer pricing regulations in Ukraine, Regal and Smart Energy have agreed to increase the discount on the price at which Regal sells its gas to Smart Energy from 0.5% to 2%. Notwithstanding the increase in the discount under the revised arrangement, as a result of the Company's gas being sold as a combined volume with Smart Energy's gas, the Company has achieved and believes will continue to achieve, on average, a materially higher net price for its gas than could otherwise be achieved through the direct sale of the Company's gas or by selling via an alternative gas trader.



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Given that Smart Energy is a related party to the Company pursuant to the AIM Rules, the amendment to the terms of sale of the Company's gas, being the increase in the discount on the price at which Regal sells its gas to Smart Energy as referred to above, is deemed a related party transaction pursuant to the AIM Rules. Accordingly, the independent directors of the Company, being Chris Hopkinson, Bruce Burrows and Dmitry Sazonenko, having consulted with the Company's Nominated Adviser, Strand Hanson Limited, consider that the sale of the Company's gas on the terms set out above is fair and reasonable insofar as shareholders are concerned.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

For further information, please contact:

Regal Petroleum plc

Chris Hopkinson, Chairman
Sergii Glazunov, Chief Executive Officer

Tel: 020 3427 3550

Strand Hanson Limited

Rory Murphy / Richard Tulloch

Tel: 020 7409 3494

Citigate Dewe Rogerson

Nick Hayns / Elizabeth Kittle

Tel: 020 7638 9571