Regal Petroleum

Realising Potential

Annual Report & Accounts 2008

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.

London Head Office

Romania

Appraisal of gas discoveries in Barlad and Suceava concessions ongoing

Business Overview

02 Chairman's Statement
04 Chief Executive Officer's Statement
09 Chief Operating Officer's Review
14 Board of Directors
16 Finance Review

Financial Statements

22 Corporate Governance Statement
23 Directors' Report
26 Independent Auditors' Report
27 Consolidated Income Statement
28 Consolidated Balance Sheet
29 Consolidated Cash Flow Statement
30 Consolidated Statement of Total Recognised Income and Expense
30 Company Statement of Total Recognised Income and Expense
31 Company Balance Sheet
32 Company Cash Flow Statement
33 Notes
ibc Corporate Directory

Highlights

Successful Track Record

- Extensive 3D and 2D seismic in Ukraine and Romania interpreted
- 1st phase geomodel for Ukraine complete
- Two top of the range drilling rigs operating in Ukraine

Rebranded and Refinanced

- Resourced and refinanced to realise potential

Experienced Management Team

- Highly experienced Board and management team
- Experience of major development projects

Asset Base

- Significant audited reserves in Ukraine (169MMboe – Ryder Scott)
- Gas discovery in Romania
- Oil discovery in Egypt

Key Growth Proposals

- New 3D seismic results, development drilling and rising gas prices offer significant upside for the Group

Chairman's Statement

A Productive Year

Keith Henry FREng, Non-Executive Chairman

I am pleased to report that the Company's key business and corporate transformational targets set at the beginning of 2008 have been delivered successfully, despite the challenging economic and business environment that has affected all companies in our industry. During the year additional capital was raised, the Board and executive team were strengthened and significant investments were made. The work that commenced in early 2008 to overhaul the direction of the Company has been implemented and a clear strategy has been put in place to deliver value from the Company's assets, particularly in Ukraine. In addition, major strides have been made in the spheres of financing, improved governance, HSES management, drilling techniques and technology deployment.

As a company operating in an emerging market, against a backdrop of dropping oil prices and in an environment where political rhetoric between Ukraine and Russia has hit the headlines worldwide, Regal's share price declined dramatically from the middle of 2008, making all standard comparisons with industry valuation fundamentals virtually impossible. Paradoxically, and contrary to the generally accepted perception, the gas dispute between Ukraine and Russia actually resulted in an increase in the gas sales prices received by Regal and has encouraged the Ukrainian Government to seek to expand the country's domestic production. Both of these events potentially offer significant benefits and upside opportunities for the Company.

As a result of the capital raising in early 2008, the financial statements presented herein reflect a considerably strengthened balance sheet from 2007. This enabled the Company to make significant investments throughout the year and, during the fourth quarter, the declining trend in production and revenue in Ukraine was reversed. The Company's strategy is to continue to invest in its drilling and production programme and it will seek additional funding opportunities to support its planned operations.

Board Changes

Mr Harry Verkuil joined as Chief Operating Officer and a Director in January 2008.

Mr Francesco Scolaro resigned as a Non-Executive Director in March 2008.

I was appointed to the role of Non-Executive Chairman in April 2008.

Mr Robert Wilde joined as Finance Director in May 2008.

Mr Adrian Coates was appointed as a Non-Executive Director in July 2008.

The Audit Committee and Remuneration Committee now comprise myself and all Non-Executive Directors.

Outlook

While we expect the current business environment to remain challenging, Regal has made significant progress in the development of its Ukrainian fields and in the work required to re-appraise its gas and condensate reserves. Under Regal's new leadership and management the Company now has real focus and direction, momentum has gained pace, and a buzz of activity is clearly evident across all levels. Going forward the task is to maintain this momentum, to build on the achievements of 2008 and to deliver a steadily increasing revenue stream, ultimately based on a successful drilling programme.

None of the progress achieved in 2008 would have been possible without a great deal of hard work and dedication by our management and staff. I would like to extend my thanks to them on behalf of the Board for all of their efforts that I am sure will continue in 2009 and beyond as the Company continues on its journey to realise its full potential.

Strong Regional Focus

Chief Executive Officer's Statement

Delivering as Advertised

David J Greer OBE, Chief Executive Officer

Introduction

2008 was a tremendous year for Regal management and staff alike as the pace and level of transformational and field activity increased steadily throughout the year. After a prolonged period of limited field activity in Ukraine, the new management team took the reins of a company that, in January 2008, had little cash, bank debt of $9 million and a reputational history over recent years that few companies would desire.

In less than a year, Regal has raised significant finance, been restructured and transformed, corporate governance has been significantly strengthened and international oilfield practices and procedures have been introduced.

Regal's principal focus remains its wholly-owned gas and condensate field development in Ukraine, where significant forward strides have been taken during 2008. The development objective here is two-fold. Firstly, to dramatically increase production from existing proven and probable ("2P") reserves of 169 MMboe in the Carboniferous Visean Sands. Secondly, to appraise additional gas discoveries made in horizons below these reservoirs (Carboniferous; Tournasian Sands) with the aim of making a noteable addition to the 2P reserve base.

As a result of the Company's improved governance, refinancing and rebranding efforts, the Company bears little resemblance to its former self and the historical downward drift in investment and decline in gas and condensate production have both been reversed. Furthermore, in contrast to the dramatic fall in oil prices in the latter half of the year, gas prices in Ukraine have continued to rise as the country's Russian imports move closer to market rates.

Consequently, although additional funding is required to maintain the pace of Ukrainian development after the first two new generation wells, the Company's longer term prospects look bright in terms of potential increased reserves, production and revenue.

Health, Safety, Environment & Security

Regal believes that effective management of Health, Safety, Environment & Security (HSES) is intrinsic to the achievement of overall business excellence and results. The Company strives to ensure the impact of its business activities on the health and safety of its staff and contractors and on the environment within which the Company operates is reduced to a level, which is as low as reasonably practical by ensuring strict adherence to the Company's HSES Management System. Regal reports safety and environmental performance in accordance with the Association of Oil and Gas Producers (OGP) guidelines.

I am very pleased to report that during 2008, only one lost time incident (owing to a slip on ice) was recorded and that, since then, by the end of the year, over 750,000 man-hours of staff and contractor time had been recorded without a lost time incident occurring. The total number of safe man-hours has since risen to well over one million man-hours without a lost time incident. No environmental incidents were recorded during the year.

Financing

Successfully raised $206 million to kick-start the Ukraine development project

3D Geomodel

Developed as a primary tool for planning wells, to confirm subsurface understanding and to optimise the development plan

New Rigs

Saipem operated drilling rigs imported to Ukraine and now operational. Expected to cut drilling time by 50% compared to local rigs previously used

Management

Strong team of internationally experienced professionals brought together to realise asset potential

Stakeholders

Continue to build upon the Company's existing partnerships to foster improved co-operation with local companies and state bodies

Chief Executive Officer's Statement continued

Accelerating Production

2008 Activity

In the first half of the year, efforts were directed toward strengthening the Board and management team and in raising over $200 million of new funding to support Regal's field development plans in Ukraine. These funds were partially used to complete the acquisition, processing and interpretation of 3D seismic over Regal's production licences in Ukraine and to lease and successfully import two brand new top drive American-built Saipem operated drilling rigs, the first and only of their kind in Ukraine. The first two new generation wells to be drilled using these state of the art drilling rigs were spud in January and February 2009. I am pleased to report that both drilling rigs are performing extremely well at penetration rates considerably higher than previous drilling campaigns on the field. The objective is to utilise the detailed sub-surface model that was constructed using the acquired 3D seismic to support the pursuit of an aggressive field development plan, expected to require around $1.6 billion invested over the next decade to produce an anticipated sustained plateau production level of over 40,000 boepd.

A comprehensive 3D seismic survey was completed over the SV field in early 2008 and the data was added to the 3D survey acquired over the MEX-GOL field in 2007. This data (over 200km²) now provides Regal with 3D coverage over the vast majority of the licence areas. This 3D coverage has enabled the Company to implement a major change in the approach to managing the subsurface in the last 12 months. During the year, this new seismic data was correlated to existing well data and a 3D subsurface computer model developed with the support of Horizon B.V. of the Netherlands. This model represents a huge improvement in the Company's understanding of the subsurface. It provides Regal's subsurface team with the means to better delineate the form and structure of the gas and condensate reservoirs, thereby supporting the drilling operations. Furthermore, it provides encouraging indications of the extent of the deeper, gas-bearing T Sands that were encountered in five of the earlier wells drilled on the licences.

The Company has identified and filled key data gaps in the subsurface, deployed increased analytical resources, and adopted a systematic approach to integrating all available historical information. The data integration process has provided a comprehensive petrophysical database and delivered an accurate and reliable definition of the reservoir character and quality for the first time. The Company has also acquired and processed a 3D seismic volume over the entire MEX-GOL-SV area. The new data has provided a robust and consistent structural framework in which to describe and delineate the reservoir architecture in appropriate detail. An integrated static petroleum geological model for the MEX-GOL-SV subsurface volume was constructed, which incorporates all of the available geological, petrophysical and seismic data.

The new model has also allowed an internal redetermination of the gas volumes in place, an assessment of the measurement uncertainties around that estimate, and quantification of the likely gas volume distributions in the subsurface. Well test and gas production historical data have been evaluated in the context of the model to give reliable estimates of remaining developed reserves, undeveloped reserves and resources. This new understanding will form the basis for an independent reserve auditor to estimate the remaining reserves in autumn 2009, which is expected to demonstrate a material re-evaluation of the proven and probable reserves associated with the Ukrainian fields.

The new geomodel is currently being used as the primary tool for planning wells to confirm the subsurface understanding, to optimise the development plan and to deliver value from the Ukrainian asset. The new approach has provided a framework within which the long-term objective of materially increasing gas recovery can be achieved and sustained.

In Romania, Regal has exploration interests in the Barlad and Suceava Blocks, held 100% and 50% respectively. Gas discoveries have been made in both licences and further

appraisal work is needed. The Company also has a 25% non-operating joint venture in Egypt, where an oil discovery was made and limited production tied in. As with Romania, further appraisal work is required.

Outlook

I am very pleased with the Company's achievements in 2008. All of the major operational, HSES and transformational targets that were set at the beginning of the year were delivered successfully.

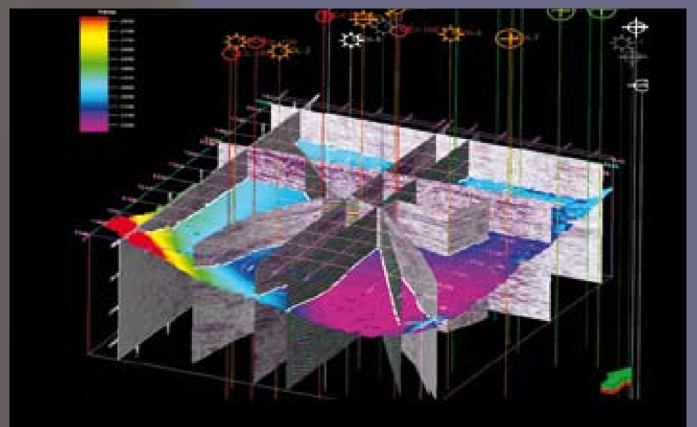
A clear strategy has been put in place to sustain the momentum that has been building in the newly transformed Company and to deliver future value from the Company's Ukrainian gas and condensate assets. The Company is dealing with current market uncertainties and irrationalities by developing a strategy based upon either financing or strategic partnerships (or a combination of both) to ensure survival of the Company in the event that the current economic situation does not improve. The Company currently has no debt and has adequate cash and materials to continue drilling its two exciting new generation wells. Thereafter, the Company has several potential business continuity options available to it ranging from care and maintenance at one end of the spectrum to accelerated development at the other. The choice of option to be pursued will ultimately depend upon whichever financing or strategic partnership proposition is considered to be optimal for shareholders.

I am confident in the scale and strategic importance of our Ukrainian assets, the robustness of our gas and condensate reserves base, our drilling rig capability and performance and I am hopeful that the ongoing subsurface modelling and drilling will result in an increase in our reserve base. I also have the great personal belief that we now have a management team with the experience and determination to realise the full potential of the Company, which will undoubtedly benefit our shareholders going forward.

I would like to thank all of our shareholders and staff for their support and commitment throughout 2008 and look forward to realising our future potential in 2009 and beyond as we continue to carefully chart our way through these challenging macro-economic times.

Technology and Expertise

The new data have provided a robust and consistent structural framework in which to describe and delineate the reservoir architecture in appropriate detail.



Regal's Assets

Our assets lie in three geographical locations. The primary asset is a large gas and condensate field with proven and probable ("2P") reserves of 169 MMboe in north eastern Ukraine.

Secondary to this, but still significant, are two large exploration blocks in Romania; the Barlad and Suceava Blocks. These are held 100% and 50%, respectively, by Regal. The Company also has a 25% non-operating joint venture in Egypt. Gas has been discovered on both licence areas in Romania, and an exploration well in Egypt tested positively for oil in September 2007 and was tied in as a producing well in early June 2008.

Chief Operating Officer's Review

Meeting Targets

Hendrikus (Harry) Verkuil Chief Operating Officer

Ukraine

Asset Overview

Regal Petroleum Corporation Ltd holds a 100% working interest and is operator of the Mekhediviska-Golotvshinska (MEX-GOL) and Svyrydivske (SV) fields that extend over a total combined area of 269 km², approximately 200 km east of Kiev. The two licences are adjacent and the field development is treated effectively as one field.

The MEX-GOL and SV fields are, geologically, located in the Dnieper Donets sedimentary basin that contains approximately 90% of all Ukrainian gas and condensate production. The reservoirs that comprise these fields are found within a sequence of sandstones of Visean age ("B" Sands) and deeper Tournasian age ("T" Sands), both in the Lower Carboniferous. This sequence of sandstones is interbedded with shales and limestones where hydrocarbon accumulations are trapped stratigraphically, rather than structurally, as the sandstones pinch out up-dip to the shale. The "B" Sands begin at a depth of approximately 4,700 metres and dip gently down toward the east of the licences. Gross thickness of the sequence varies between 800 metres–1,000 metres. The "T" Sands begin at a depth of approximately 5,800 metres. To date, five wells have penetrated the "T" Sands and gas was successfully flow tested in three of them.

The fields were originally discovered in the 1960s, with wells being drilled sporadically over the years since then, by State companies. Only limited investment had been made in developing the asset further and production to date has consequently reflected this. Between 2000 and 2004, the former Regal/ Chernihivnaftagasgeologia (CNGG) joint venture drilled two development/appraisal wells, MEX-102 and SV-52, and successfully completed three workovers on Soviet era wells. The Ukrainian Government declared the fields commercial in December 2003 and 20 year production licences were awarded to Regal in July 2004.

Regal's last reserves estimate, as reported by an independent reserves audit (Ryder Scott), was 169 MMboe (2P) in 2005. These reserves are contained entirely within the "B" Sands. The Company aims to firm up additional resources from the "T" Sands on the basis of the recently completed subsurface model and the ongoing appraisal drilling programme by autumn 2009.

Production

In 2008, Regal operated five producing wells. The Company's average production over the 12 month period to 31 December 2008 was 3.53 MMcf/d (100,085 m³/d) of gas and 160 bpd (25.5 m³/d) of condensate, which equates to a combined oil equivalent of 749 boepd. Production decreased due to natural decline of the wells together with well intervention work, to a low point of approximately 460 boepd in November 2008, then peaked, following production from the MEX-102 workover in the same month, at 2,105 boepd, before being scaled back.

Field Development

The first two new generation wells that were spud in January and February 2009 are targeting production from the upper "B" Sands

Chief Operating Officer's Review continued

(expected to be encountered around 4,700 metres to 5,500 metres depth) and also appraisal of these deeper "T" Sands (at around 5,800 metres). Following the capital raising in February 2008, much of the year was focused on contracting, via Saipem SpA, two new 2,000bhp Lewco (USA) built drilling rigs on a long term basis. These were first secured at the point of manufacture in the United States then imported into Ukraine in the fourth quarter of 2008, before being assembled on site for the drilling of the MEX-106 well on the MEX-GOL licence and the SV-58 well on the SV licence; both wells were spud shortly after the year end. These rigs are the first of their kind in operation in Ukraine and mark the start of an accelerated drilling programme in which wells should be drilled, with consequent production being brought on stream, faster than by using conventional Ukrainian rigs. Herein lies one of the pillars of the Company's strategy, of bringing forward future cash flow and, therefore, economic value.

MEX-106 and SV-58 represent the first in a series of development wells to be drilled utilising the new geomodel with a related step change in operational philosophy and well engineering approach. The rigs are capable of being skid-mounted such that, with directional drilling, multiple wells can be drilled from one drilling hub in a similar manner to offshore drilling from a platform. This reduces the environmental impact as the drilling of groups of up to nine wells per location can be completed rather than having nine separate well locations. It also speeds up the time between wells as the rig can be skidded a few metres to the next well in a matter of hours rather than being dismantled and reconstructed over a period of weeks.

In addition, the well design is such that dual completion for the upper "B" Sands and lower "T" Sands can be made for each well. Sliding sleeves will also allow for selective production from the different gas bearing horizons whilst also enabling the shut off of any water bearing strata, thereby optimising gas and condensate recovery. Whilst these wells are relatively expensive for land wells because of their depth, they constitute the vast majority of the overall capital cost of the field development. This is because treatment of the gas at the surface is relatively minor because of its quality (Regal already has a surface gas treatment facility capable of processing up to 700,000 m³/d) and the off-taker is responsible for all transportation costs beyond the pipeline connection in the field to the main Kursk–Kiev export pipeline network. This connecting pipeline was also upgraded during 2008 to increase throughput capacity.

In addition to these new generation wells, Regal completed the MEX-103 well and worked over three existing wells: MEX-102, GOL-1 (mostly for water shut-off) and GOL-2. Of these workovers, MEX-102 was so prolific that it initially produced over 200,000 m³/d in

November 2008, from a single horizon, thereby raising total field production from under 500 boepd to over 2,000 boepd. This well has now been choked-back so as to optimise recovery through good reservoir management and to prevent condensate banking. This well should be sustainable for quite some time to come. GOL-1 was reconnected into the MEX-GOL processing facility in March 2009. MEX-103, having been spud in 2007, was inherited by the new management team. It reached its targeted depth of 5,258 metres in August 2008, but could not be tested until the old Ukrainian rig had been removed. However the reservoir appears to have suffered some damage during drilling and work is underway to effect a chemical treatment of the damaged formation with the aim of cleaning the well and stimulating gas production. The delay in production from this well, the choking back of MEX-102 and the scaling back of production arising from the well intervention work lowered production in the first quarter of 2009 to just under 1,200 boepd, although this is still more than double the 2008 production low point in November and marked the turning point where the new investments started to produce results. Production is anticipated to rise significantly as the new generation wells targeting the “B” and “T” Sands are brought into production later in 2009.

The overall field development objective is to drill, back to back, up to 95 wells over the licence areas. This requires significant forward planning and capital investment. Already, a further five well locations have received approval during the year and civil works started on the first two of these (SV-66 and SV-61). Long lead items, such as casing and well heads, are already in stock and numerous oil service contractors, both Western and Ukrainian, are working with Regal to maintain its development momentum. The main drilling contractor, Saipem SpA, has built a service compound for around 200 people in nearby Lokhvista and for many contractors this is their first entry into Ukraine. Regal has also built an accommodation block at its operations control centre in Yachniki to provide support for its field development team. A number of new positions have also been assigned to Ukrainian nationals and the Company continues its alliance with NAK Nadra to transfer technology to this Ukrainian enterprise and to train local staff in modern subsurface and drilling practices. All this has been achieved with the continued support of both local and national Government.

Romania

Asset Overview

Regal holds two licences in the north eastern part of Romania. The Suceava and Barlad blocks are located to the east of the producing oil and gas fields and infrastructure in the Carpathian Mountains on the Moldavian Platform. These blocks cover 4,103 km^2 and 6,285 km^2 respectively, with potential

Chief Operating Officer's Review continued

hydrocarbons at shallow horizons not deeper than 1,000 metres to 1,500 metres. Regal holds a 100% working interest and is operator of the Barlad block. The Suceava block, adjacent and directly north of the Barlad block, is managed via a 50/50 joint venture with Aurelian Oil and Gas plc (Aurelian) as operator.

On the Barlad licence, 1,000 km of 2D seismic was acquired and two wells were drilled in 2007. The first of these, RBN-4 well, tested gas at a maximum rate of 3.74 MMcf/d (105,900 m^3/d) . A further 122 km of 2D seismic was acquired during 2008. This was processed and a sizeable structure, named Vladnicele, was delineated. This was drilled in the fourth quarter and five intervals were perforated for testing in this well (RBN-S1). However, although gas was encountered, the well established that the reservoir quality of the deltaic system objective was inadequate to be declared a commercial success and it would appear that the well was drilled beyond the extent of the fluvial reservoir encountered in the RBN-4 well. It is intended to drill a further well at a future date in the hope of determining the actual extent of the gas reservoir discovered in RBN-4.

160 km of 2D seismic was acquired on the Suceava licence in 2007. The EV-1 well was drilled and tested at an average rate of 0.88 MMcf/d (24,840 m^3/d) in December 2007. Work has been underway during 2008 to tie this well into the Bilca Gas Plant, operated by Aurelian on its adjacent Brodina Block EIII-1 and on field unitisation negotiations.

Egypt

Asset Overview

In late 2006, Regal entered into a joint venture with Apache Khalda Corporation LDC ("Apache"), in respect of the East Ras Budran concession in Egypt, with Regal retaining a 25% working interest. Since then the joint venture partners have acquired a 3D seismic survey and drilled three exploration wells on the concession. The first of these, ERB-A-1X, drilled in mid 2007, encountered oil in the Darat Limestone at a depth of 3,547 metres and flowed oil on test. This well has been tied back into production facilities to undergo production testing. The second and third exploration wells were designed to explore potential reservoirs in a different part of the concession but were unsuccessful.

Gas Market Potential

Realised gas prices

’08
$187/Mm³

’07
$142/Mm³

Ukraine has a significant gas deficit which is bridged by imports through Russia. In previous years, Ukraine has enjoyed a discount to European market prices on these imports.

The ongoing relationships and negotiations between Ukraine and Russia have resulted in upward pressure on the Ukrainian domestic gas price. It is anticipated that these continued price increases and convergence with European market prices offer material upside value.

Executive Directors

David J Greer OBE, Chief Executive Officer

David Greer was appointed as Chairman and Chief Executive Officer in November 2007. Mr Greer subsequently relinquished the post of Chairman to Mr Henry in April 2008. Mr Greer has extensive oil industry experience, having worked for Shell International Exploration and Production for 28 years. He has held a wide variety of engineering, production, commercial and senior executive positions in Shell's operations in the United Kingdom, the Netherlands, Norway, Canada, Oman, Argentina, the Philippines and latterly as deputy CEO and project director of the Sakhalin 2 project in Russia. Mr Greer graduated from the University of Edinburgh in Civil and Structural Engineering and is a Fellow of the Institution of Mechanical Engineers. Mr Greer was awarded his OBE in the 2003 New Year honours list.

Hendrikus (Harry) Verkuil Chief Operating Officer

Harry Verkuil was appointed as Chief Operating Officer in November 2007 with effect from January 2008. Mr Verkuil worked for Shell International Exploration and Production for 25 years in a wide variety of well engineering, operational and management roles in the Netherlands, Brunei, United Kingdom, Pakistan, India and more recently in Saudi Arabia, where he held the position of acting operations manager with South Rub Al Khali Company Ltd. Mr Verkuil holds a degree in Mechanical Engineering and is a chartered engineer.

Robert Wilde Finance Director

Robert Wilde joined as Finance Director in May 2008. Mr Wilde has over 20 years' experience in the energy industry, having worked in upstream oil and gas with Phillips Petroleum and Ranger Oil and also in the downstream power generation sector with Powergen and RWE. He has held a number of senior finance and board roles in respect of projects in Hungary, Germany, Italy, Portugal and Russia. Most recently, Mr Wilde was finance director of Baltic Oil Terminals Plc, having taken that company to IPO on the AIM market in 2006. He is a graduate in Geology & Geophysics from Imperial College, London and qualified as a chartered accountant with Ernst & Young.

Non-Executive Directors

Keith Henry FREng, Non-Executive Chairman

Keith Henry was appointed as Non-Executive Chairman in April 2008. Mr Henry has over 34 years' experience in the development, financing, design, construction and management of projects in the oil and gas, process, pipeline, and energy industries, during which time he was chief executive of National Power Plc, Kvaerner Engineering and Construction Limited and Brown & Root Limited. In recent years, Mr Henry has held a number of senior non-executive roles, including director then chairman of Burren Energy plc for three years until the sale of the company to Eni SpA in January 2008. He is currently the senior independent director of Emerald Energy plc and a non-executive director of four privately owned companies. He previously served as a non-executive director of First Calgary Petroleums Limited until the sale of the company to Eni SpA in November 2008. He also served as deputy chairman of Petroleum Geo-Services ASA from 2003 and then led the demerger as chairman of Petrojarl ASA in 2006. He also served as a non-executive director of South East Water Ltd from 2005 to 2007 and of Enterprise Oil plc from 1995 to 2002. Mr Henry is a Fellow of the Royal Academy of Engineering and a chartered civil engineer with a BSc degree from London University and an MSc from the University of Birmingham.

Lord Anthony St John of Bletso Non-Executive Director

Lord St John was appointed as Non-Executive Director in September 2003. A qualified solicitor, Lord St John is a Crossbench Member of the House of Lords and has served as a Member of the House of Lords European Union Sub-committee A on Trade, Finance and Foreign Affairs. He also serves as the chairman of Estate and General and chairman of the Governing Board of Certification International.

Antonio Mozetic Non-Executive Director

Antonio Mozetic was appointed as Non-Executive Director in November 2007. Mr Mozetic worked for Shell International Exploration and Production for over 30 years, during which time he held a variety of technical, commercial and management positions in the Netherlands, Saudi Arabia, the Philippines, China, Oman, Norway, Nigeria, Venezuela and the UK. Mr Mozetic is a highly experienced exploration professional and has been actively involved throughout his career in the exploration and discovery of a significant number of oil and gas fields. Mr Mozetic has most recently acted as an independent consultant and technical advisor to the oil industry and holds a doctorate in Geological Sciences from the University of Buenos Aires.

Adrian Coates Non-Executive Director

Adrian Coates was appointed as Non-Executive Director in July 2008. Mr Coates has many years' experience in the investment banking industry, having recently resigned from HSBC Bank Plc after 10 years, latterly as global sector head, Resources and Energy Group, Global Banking and Markets Division. He has also held senior roles in UBS, Warrior International and Credit Suisse First Boston with a specialisation in the natural resources sector. His City experience is extensive and he has advised on many substantial corporate transactions. He holds an MA(Econ) from Cambridge University and an MSc (MBA) from the London Business School.

Finance Review

A Year of Investment

Robert Wilde Finance Director

Overview

2008 witnessed a strengthening of the Company's financial position with the injection of cash, through the placing of $206 million of fresh equity, to kick-start the development of its Ukrainian gas and condensate assets. This enabled the debt of $9 million outstanding at the start of the year to be discharged and, more significantly, the commencement of real investment in the Ukrainian gas and condensate field after several years in which the Company was either constrained by a lack of cash or by disputation in relation to the validity of its licences. This investment included the contracting of the two new top-drive American rigs from Saipem SpA, both of which were imported into Ukraine before the year end, and the purchase of significant long-lead items for the first six wells, such as casing and drill bits. It also included the workover of an existing well, MEX-102, with the result that from the fourth quarter, the decline in production and revenue was reversed. Production should continue to rise in 2009 as the anticipated production from the new generation wells is brought on stream.

Results for the Year

The Company's work programmes during the year meant that the 2008 results were always expected to include a low point in revenues prior to the benefits of completing those work programmes that resulted in the reversal of the decline in production in the latter part of the year. However, after adjusting for non-cash share option charges, the Group's underlying operating loss of $15.7 million was not significantly worse than in 2007 ($13.3 million). This clearly illustrates the effect of a 32% rise in Regal's realised gas price to $187/Mm³ for 2008, from $142/Mm³ the previous year. The price rose again, in January 2009, to $242/Mm³. The benefit of this further increase should manifest itself in next year's results and mark a turn-around in the Company's financial fortunes.

The stemming of the historical production decline led to a rise from a daily rate of approximately 460 boepd in November 2008 to a peak of over 2,000 boepd later that month following the completion of the MEX-102 workover, before being temporarily scaled back to allow for the well intervention and production management activity in the first quarter of 2009. As a result of this activity, production is forecast to return to higher levels and is anticipated to increase still further in the third quarter of 2009 as new generation wells are brought on stream.

Cost of sales includes Government royalties on Ukrainian gas and condensate production of $2.3 million. Royalties vary depending on the nature of the hydrocarbons and the depth from which they are produced, with deeper production attracting better fiscal terms. The charge incurred by Regal represents an amalgamated average rate of approximately 20%.

The results include a charge of $28.9 million for foreign exchange, although the majority of this ($23.3 million) is unrealised. This arises not only from underlying transactions in different currencies, but also because the Group holds a variety of currencies in addition to funds held in the reporting currency of US Dollars. The cash proceeds from the equity placings in February 2008 and July 2008 were predominantly received in Sterling, but currencies were then purchased to match future expected capital and operating expenditure needs, thereby mitigating exchange rate exposure. The US Dollar enjoyed a dramatic rise in strength in the latter part of the year against Sterling and, to a lesser extent, against the Euro. At the balance sheet date, the Group held $106.1 million in cash, comprising the US Dollar equivalent of €64.9 million, $7.8 million and £32.3 million with the remaining balance held in Ukrainian and Romanian currencies.

Gas and Condensate Sales

The Company has a long term agreement with OJSC Ukrzakordongeology (an affiliate of the Ferrexpo Group) to act as its exclusive offtaker of gas in Ukraine. The sales price of $187/Mm³, referred to above, is consistent with the Government capped sales price.

Condensate is commercially tendered to a number of buyers and is typically sold in contracted units of 230 to 1,400 barrels.

Condensate prices are seasonal with the highest prices (relative to the spot price of oil) achieved in the summer because of sales to the agricultural industry. The average price achieved during the year was $84 per barrel, with the price on occasions being higher than the prevailing oil spot price.

Cash Flow

From a cash flow perspective, 2008 was fundamentally a year in which capital was raised and preparations made for the field development ahead of the main drilling programme that commenced shortly after the balance sheet date. This included investment in understanding the subsurface, leasing the two new top-drive drilling rigs, civil works for well site preparation and the acquisition of $18.8 million in stock, such as casing and drill bits for the first few wells. $106.1 million of the cash raised remained at the balance sheet date. The effect of the capital raising and the preparations made for the field development on the balance sheet are reflected in both the increase in net current assets at $132.6 million at 31 December 2008 (2007: $8.0 million) and an increase in fixed assets at $87.8 million at 31 December 2008 (2007: $59.6 million).

Operating Environment, Principal Risks and Uncertainties

As planned, the Company reviewed the risks across all material aspects of the business during the course of 2008 and now has in place a risk evaluation methodology. This highlights technical, operational, external and fiduciary risks. It assesses the level of risk and potential consequences. This has been presented to the Board and Audit Committee and will be reviewed on a quarterly basis to bring to their attention potential concerns and, where possible, suggest mitigating action. Key risks already recognised are detailed below.

Financial Markets and Global Economic Outlook

The performance of the Company will be influenced by global economic conditions and, in particular the conditions prevailing in the United Kingdom, Ukraine, Romania and Egypt. The global economy has been experiencing difficulties during 2008, with the oil and gas industry, in particular, being affected from the autumn. The financial markets have deteriorated dramatically in this period. This has led to unprecedented levels of illiquidity, resulting in the development of significant problems at a number of the world's largest commercial banks, investment banks and insurance companies and considerable downward pressure and volatility in share prices. In addition, recessionary conditions are present in the United Kingdom, as well as in other countries around the world. If these levels of market disruption and volatility continue, worsen or abate and then recur, the Company is likely to experience difficulty in securing debt finance, if required, to fund its long term development strategy. The Group 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 obligations to the Group. The precise nature of all the risks and uncertainties the Group faces as a result of the current global financial crisis and global economic outlook cannot be predicted and many of these risks are outside of the Group's control.

Risks Relating to Ukraine, Romania and Egypt

Emerging markets such as Ukraine and Romania 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 needs to adapt and alter itself, as needed, relatively quickly. Although both of these economies endured difficult times during the 1990s – largely because of the transition to a market economy and the close, former ties to the Russian economy – many recent changes have been encouragingly positive. Both countries appear to be attempting to align their respective interests with NATO and gain closer ties to Western Europe.

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. Russian

Finance Review continued

suppliers have stated their intention to bring gas prices for supplies to the Ukraine in line with western European countries. Whilst this should put Regal in a well-placed position, there is also the risk of the Ukrainian Government seeking to address this in its fiscal structure.

The Group's management has considerable experience of operating in countries which were once part of the Soviet Union, consequently sharing customs and practices. The operations in Ukraine are also managed by a local national. Additionally, the Group operates within a working agreement with local state-owned companies, under which terms for co-operation in relation to the development of the Ukrainian fields have been outlined.

Romania is already a member of the European Union and has moved a long way down the path of changes to the political and economic framework required of such a member state. The operations in Romania are managed by a local national with extensive experience of working in the oil and gas sector.

Egypt has a long and established track record of foreign investment into the country's oil sector. Whilst the current Government remains in power, the political risks posed in this country are not currently considered to be significant.

Currency Risk

The Company's main activities are i) the significant investment into the development of the Group's Ukrainian gas and condensate assets; ii) the production and sale of gas, oil and condensate; and iii) the continued exploration for further hydrocarbon reserves. The majority of costs and revenues are US Dollar or Euro related, but with significant elements of the same being exposed to local currencies. Where possible, risks relating to local currencies are mitigated contractually by tying into the US Dollar and Euro. The placing of new shares in February 2008 and July 2008 predominantly raised new funds in Sterling for the Company giving US Dollar and Euro exposure. Where practical, a proportion of funds are converted into relevant currencies, when known, to effectively hedge against this exposure. Much of these funds were converted soon after receipt.

It should be noted that Regal prepares its financial statements in US Dollars and that the sudden rise in value of the US Dollar in the latter part of 2008 gave rise to a relatively large, unrealised foreign exchange loss based on cash held in currencies other than US Dollars. Such funds are intended for use against non-US Dollar related future costs.

Oil Price Risk

The Company currently derives its revenue from the sale of Ukrainian gas and condensate. Whilst these revenues are relatively modest, because of the development stage at which Regal finds itself, these revenues are still subject to oil price volatility. A prolonged period of low oil prices may impact the Group's ability to maintain its long-term investment programme with a consequent effect on growth rate which may impact the share price or any shareholder returns. Lower gas and condensate prices may not only decrease the Group's revenues on a per unit basis, but also may reduce the amount of gas and condensate that the Group can produce economically.

Although set in Hryvnia, Ukrainian gas prices are largely dictated by Russian, US Dollar-based, import prices because of the dependency of Ukraine on imported gas. Following the statement by Gazprom in 2008 of its intention to converge the Ukrainian gas prices with the higher market prices of Western Europe (which are themselves intrinsically linked to oil price), it is likely that this will result in further upward pressure on the gas price, as was seen with the increase in January 2009 with the Company's realised price rising to $242/Mm³ from $187/Mm³ in 2008.

Given the relatively low production volumes at present, compared to anticipated future volumes, the overall project economics (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) prices than short term oil price volatility. However, short

term volatility does affect liquidity risk, as in the early stage of the project, income streams from production revenues are outweighed by capital investment.

Sales of the Company's Ukrainian condensate are directly tied to the oil price. These commodities have in recent years witnessed a surge in price and there is a risk that world demand for oil subsides, bringing with it a corresponding decline in price.

Production Risks
Producing gas and condensate reservoirs are generally characterised by declining production rates that vary depending upon reservoir characteristics and other factors. Any future gas and condensate reserves of the Group, production and, therefore, the Group's cash flow and income are highly dependent on the Group's success in 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.

Industry Risks
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 sufficiently to be economic. In addition, drilling and production operations may be curtailed, delayed or cancelled as a result of other factors.

Exposure to Credit, Liquidity and Cash Flow Risk
The Group does not currently have any outstanding loans. Most of its gas is paid for monthly in advance based on estimated production with a correcting settlement made in the following month. Debtors and risk of non-payment are, therefore, not particularly significant at present. Creditors are more relevant as the capital investment gathers pace. In most cases, endeavours are made to arrange for delivery before payment for the goods is made, but this is not always possible and a risk does exist. A proportion of invoiced sums is often retained until delivery and, where possible, orders are placed with reputable, known suppliers. Internal financial projections are regularly made based on the latest estimates available and various scenarios to assess the robustness of the liquidity of the Group are run. Following the capital raised in 2008, the Group currently holds sufficient cash for the medium term needs of the business, but these funds are insufficient for the level of capital expenditure required to fully develop the Company's Ukrainian gas and condensate assets. Whilst much of this capital need is expected to be derived from future operational cash generated from production from the wells to be drilled, further funding is also necessary, beyond the cash currently held. There is a risk that insufficient operational cash is generated, or that additional funding cannot be secured. However, the Directors have developed an alternate strategy that should enable the Company to survive as a going concern should additional financing not be forthcoming in the short term. The consequence of implementing this strategy would be a slowing down of the pace of field development to conserve cash, ensuring that the business operates within the cash generated from existing production and expected future production from the first two new-generation wells; MEX-106 and SV-58. This strategy is underpinned by a number of assumptions which involve making judgements about future events, such as gas price, successful drilling, expected future production levels and drilling rig commitments. Further details of the Group's current funding constraints are provided in the Going Concern section of the Directors' Report.

Finance Review continued

Risks Relating to Key Personnel

Regal has a relatively small team of executives and senior management. Whilst this is sufficient for a company of this nature, there is a dependency risk relating to the loss of key individuals.

Risks Relating to Further Development and Operation of the Gas Fields in Ukraine

The planned development of the Ukrainian fields are susceptible to appraisal and development risk. This could include, but is not restricted to, delays in delivery of equipment into Ukraine; failure of key equipment; lower than expected production from the wells as they are brought on-stream; problematic wells; or complex geology that is difficult to drill or interpret. The generation of significant operational cash envisaged in the coming years from this development is dependent on the successful delivery and completion of the development of the fields. Furthermore, the optimisation of all of the Company's assets is dependent on maintaining constructive relationships between all of our business stakeholders.

Capital Risk Management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company has developed a strategy based upon either financing or strategic partnerships (or a combination of both) to ensure survival of the Company in the event that the current economic situation does not improve. The Company currently has no debt and has adequate cash and materials to continue drilling its two new generation wells. Thereafter and depending on the extent and timing of financing available, the Company has several potential business continuity options available to it ranging from care and maintenance at one end of the spectrum to accelerated development at the other.

Key Performance Indicators

The Company has devised a strategy to monetise the Ukrainian gas and condensate assets, by means of a detailed field development and implementation programme and to assess its performance against a set of performance criteria. The Board and management are incentivised to deliver shareholder value in line with this strategy. Options have been granted to all key Executive Directors and staff which become exercisable only when, or if, performance milestones are accomplished. Details of these performance conditions have already been made public to the market, and are based around the following activities:

- Securing drilling locations and permits;
- Establishing a drilling base in-country;
- Increasing existing production volumes and proving-up additional reserves; and
- Securing interest amongst financial stakeholders to source funding for the continued programme of development.

In this manner, the interests of the Company's management and staff are aligned to shareholder interests.

Outlook

The Company's balance sheet has been strengthened substantially over the year and, as a consequence, is now well positioned to deliver value from the Company's Ukrainian gas and condensate assets. The rate of value delivery will naturally depend upon the global economic climate and the impact that this will have on perceived Ukrainian country risk. Nevertheless, the Company has devised a range of strategies to cope with current uncertainties and to ensure that the Company can continue to operate as a going concern and to prosper during these challenging economic times. With no debt and adequate cash and materials to continue drilling its two new generation wells, the Company's development plans are on track. No effort will however be spared to ensure that the Company's future is one in which it can continue to sustain the momentum gained in 2008, to continue to grow and thereby realise the Company's full potential.

Key facts and figures

$206m equity finance raised

Increase in realised gas price of **32%**

$28m capital expenditure in Ukraine

Acquired **$19m** of drilling inventory

Year end cash balance **$106m**

Corporate Governance Statement

Companies on the Alternative Investment Market of the London Stock Exchange are not required to comply with the Combined Code and due to its size the Company is not in full compliance. The Directors, however, support high standards of corporate governance and will progressively adopt best practices in line with the Combined Code on Corporate Governance, so far as is practicable.

The Board

The Board of the Company consists of a Chairman, three Executive Directors and three Non-Executive Directors. The composition of the Board ensures that no one individual or group dominates the decision making process.

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

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

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

The Chairman and a Non-Executive Director are interested in ordinary shares and all Non-Executive Directors hold options in respect to ordinary shares. The Company does not consider that these interests, which serve to align their interests with shareholders generally, adversely affect their independence as Non-Executive Directors.

Remuneration Committee

The Remuneration Committee, comprising solely of independent Non-Executive Directors and the Chairman who is considered to be independent for this role, is responsible for establishing and developing the Company's general policy on executive and senior management remuneration and determining specific remuneration packages for Executive Directors.

The Remuneration Committee presently comprises: Keith Henry (Chairman), Lord St John of Bletso, Antonio Mozetic and Adrian Coates.

Audit Committee

The Audit Committee, comprising solely of independent Non-Executive Directors and the Chairman who is considered to be independent for this role, meets not less than twice a year and considers the Company's financial reporting (including accounting policies) and internal financial controls.

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

The Audit Committee presently comprises: Adrian Coates (Chairman), Keith Henry, Lord St John of Bletso and Antonio Mozetic.

Nomination Committee

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

Internal Control

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

Internal controls and business risks were monitored in the course of 2008 through regular Board meetings.

Communication with Shareholders

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

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

The Annual Report together with other information about the Group is available on the Group's website at www.regalpetroleum.co.uk.

Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2008.

Principal Activities

The principal activities of the Group are oil and gas exploration, development and production. The Group has its head office in London and has oil and gas interests in Ukraine, Romania and Egypt. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 14 to the accounts.

Proposed Dividend

The Directors do not recommend the payment of a dividend (2007: $nil).

Policy and Practice on Payment of Creditors

The Group and Company's policy on payment of creditors is to settle all amounts with its creditors on a timely basis taking into account the credit period given by each supplier.

The Group and Company's average number of days purchases included within trade creditors at the year end was 28 (2007: 30).

Business Review

The Company is required by the Companies Act s234ZZB 1985 to include a review of the business and likely future developments. This information is contained in the Chairman's Statement, Chief Executive Officer's Statement, Chief Operating Officer's Statement and the Finance Review on pages 2 to 20.

Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in Note 23. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in Note 23.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on page 22.

Under its Articles of Association, the Company has authority to issue 300,000,000 ordinary shares.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chief Executive Officer's Statement on pages 4 to 7. The financial position of the Group, its cash flows and liquidity position are described in the Finance Review on pages 16 to 20. In addition, Note 27 to the financial statements includes the Group's objectives and strategies for managing its capital, details of its financial instruments and its exposures to currency, interest rate and liquidity risk. The Group currently has no debt.

In addition to the risks identified in the Finance Review, it should be recognised that, in the current world economic climate, companies such as Regal face more challenging and uncertain issues than previously when securing investment capital to exploit the gas field development in the Ukraine. The objective of the Company is to source the majority of such funds from operational cash during the field life. However, in the initial period of the project, production is insufficient to fully satisfy the level of investment required in this manner. In addition to the funds raised from the placing of equity in 2008, further funds are required to bridge this initial period if the current pace of development is to be maintained. However, the Directors have developed an alternate strategy that should enable the Company to survive as a going concern should additional financing not be forthcoming in the short term. The consequence of implementing this strategy would be a slowing down of the pace of field development to conserve cash, ensuring that the business operates within the cash generated from existing production and expected future production from the first two new-generation wells: MEX-106 and SV-58. This strategy is underpinned by a number of assumptions which involve making judgements about future events, such as gas price, successful drilling, expected future production levels and drilling rig commitments. The Directors consider these assumptions to be reasonable at this time and the Group's forecasts and projections using this alternative strategy, taking account of reasonably possible changes in the above assumptions, show that the Group should be able to operate within the levels of its available cash balances. Nevertheless, circumstances can be subject to change, both favourably and adversely.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Post Balance Sheet Events

In the Directors' opinion no post balance sheet events have occurred that require disclosure.

Directors' Report continued

Directors and Directors' Interests

The Directors who held office during the year were as follows:

	Date appointed	Date resigned
K Henry	15 April 2008	–
D J Greer	–	–
H Verkuil	15 January 2008	–
R Wilde	1 May 2008	–
Lord St John of Bletso	–	–
A Mozetic	–	–
A Coates	18 July 2008	–
F Scolaro	–	6 March 2008

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company:

	Class of share	Interest at end of year	Interest at start of year or if later date of appointment
D J Greer	Ordinary	110,000	–
K Henry	Ordinary	30,000	14,000
Lord St John of Bletso	Ordinary	106,500	6,500

No changes took place in the interests of Directors between 31 December 2008 and the date of this report.

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of other Group companies.

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year except as indicated in Note 6.

Directors' Indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Substantial Shareholders

As of 30 April 2009 the Company had been notified of the following interests of 3% or more of its issued share capital:

Substantial shareholder	Number of shares	% of issued ordinary share capital
Safeguard Management	34,631,881	16.36%
Capital Research and Management Company	20,130,202	9.51%
BlackRock Investment Management	20,014,292	9.46%
Pope Asset Management	11,016,731	5.21%
Henderson Global Investors	10,075,569	4.76%
MF Global UK Limited	6,552,421	3.10%

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Disclosure to Auditor
Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are not informed; and
- the Director has taken all steps required to make himself aware of any relevant audit information and to establish that the Company's auditors are informed of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Political and Charitable Contributions
During the year the Group made no charitable donations (2007: $1,463) and no political contributions (2007: $nil).

Auditors
The Company appointed Deloitte LLP as auditors on 12 December 2008. A resolution to reappoint Deloitte LLP as auditors will be proposed at the next Annual General Meeting.

By order of the Board

Robert Wilde
Director
30 April 2009

Independent Auditors' Report

to the members of Regal Petroleum PLC

We have audited the group and parent company financial statements (the 'financial statements') of Regal Petroleum plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities in the Directors' Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement, Chief Executive Officer's statement, the Chief Operating Officer's statement and the Finance review that is cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
30 April 2009

Consolidated Income Statement
for the year ended 31 December 2008

	Note	**2008 $000**	2007 $000
Revenue	2	**11,450**	14,264
Cost of sales		**(5,667)**	(5,372)
Gross profit		**5,783**	8,892
Other administrative expenses		**(18,023)**	(20,799)
Share based charge	23	**(9,120)**	(7,489)
Total administrative expenses		**(27,143)**	(28,288)
Other operating income		**–**	830
Other operating expenses: exploration costs written off	12	**(3,467)**	(2,266)
Operating loss		**(24,827)**	(20,832)
Sale of investment	5	**–**	1,475
Investment revenue	2	**5,501**	424
Finance costs	8	**(525)**	(427)
Other gains and losses	4	**(28,888)**	(252)
Loss on ordinary activities before taxation	3	**(48,739)**	(19,612)
Income tax expense	9	**(2,074)**	(2,423)
Loss on ordinary activities after taxation		**(50,813)**	(22,035)
Loss per ordinary share (cents)			
Basic and diluted	11	**(25.6c)**	(16.2c)

The income statement has been prepared on the basis that all operations are continuing operations.

Consolidated Balance Sheet
at 31 December 2008

	Note	**2008 $000**	2007 $000
Assets			
Non-current assets			
Intangible assets	12	**26,200**	25,992
Property, plant and equipment	13	**61,588**	33,561
		87,788	59,553
Current assets			
Inventories	15	**19,021**	297
Trade and other receivables	16	**7,507**	2,159
Cash and cash equivalents	17	**106,078**	5,565
		132,606	8,021
Total assets		**220,394**	67,574
Liabilities			
Current liabilities			
Current tax liabilities		**(171)**	(250)
Trade and other payables	18	**(9,038)**	(10,487)
Borrowings	19	**–**	(8,625)
		(9,209)	(19,362)
Net current assets/(liabilities)		**123,397**	(11,341)
Non-current liabilities			
Trade and other payables	20	**(101)**	(41)
Provisions	21	**(2,358)**	(1,283)
Deferred tax	22	**(3,093)**	(1,233)
		(5,552)	(2,557)
Total liabilities		**(14,761)**	(21,919)
Net assets		**205,633**	45,655
Equity			
Called up share capital	23	**19,094**	12,378
Share premium account	24	**462,249**	265,899
Other reserves	24	**17,383**	12,681
Profit and loss account	24	**(293,093)**	(245,303)
Total equity		**205,633**	45,655

These financial statements were approved by the Board of Directors and authorised for issue on 30 April 2009. They were signed on its behalf by:

Robert Wilde
Director

Consolidated Cash Flow Statement
for the year ended 31 December 2008

	Note	2008 $000	2007 $000
Operating activities			
Cash used in operations	26	**(13,159)**	(7,326)
Interest received		**–**	366
Interest paid		**(193)**	(59)
Taxation paid		**(302)**	(962)
Net cash used in operating activities		**(13,654)**	(7,981)
Investing activities			
Purchase of property, plant and equipment		**(28,348)**	(5,709)
Purchase of intangible assets		**(8,244)**	(4,535)
Purchase of materials inventory		**(18,797)**	–
Proceeds from sale of investment		**–**	1,475
Proceeds from sale of intangible fixed assets		**–**	40
Proceeds from sale of property, plant and equipment		**–**	2
Net cash used in investing activities		**(55,389)**	(8,727)
Financing activities			
Proceeds from borrowings		**1,500**	9,000
Settlement of borrowings		**(10,500)**	–
Funds received in connection with share options		**7,075**	655
Proceeds from issue of shares		**206,030**	–
Payment of share issue costs		**(9,407)**	–
Interest received on surplus funds from share issue		**5,364**	–
Payment of debt issue costs		**–**	(671)
Net cash from financing activities		**200,062**	8,984
Net increase/(decrease) in cash and cash equivalents		**131,019**	(7,724)
Cash and cash equivalents at beginning of year		**5,565**	13,048
Effect of foreign exchange rate changes		**(30,506)**	241
Cash and cash equivalents at end of year	17	**106,078**	5,565

Consolidated Statement of Total Recognised Income and Expense

for the year ended 31 December 2008

	2008 $000	2007 $000
Equity – foreign currency translation	**(2,028)**	(269)
Net expense recognised directly in equity	**(2,028)**	(269)
Loss for the year	**(50,813)**	(22,035)
Total recognised income and expense for the year	**(52,841)**	(22,304)

Company Statement of Total Recognised Income and Expense

for the year ended 31 December 2008

	2008 $000	2007 $000
Loss for the year	**(39,881)**	(21,168)
Total recognised income and expense for the year	**(39,881)**	(21,168)

Company Balance Sheet
at 31 December 2008

	Note	2008 $000	2007 $000
Assets			
Non-current assets			
Intangible assets	12	**201**	86
Property, plant and equipment	13	**279**	355
Investments	14	**17,279**	17,279
Loans to Group undertakings	14	**92,835**	31,644
		110,594	49,364
Current assets			
Trade and other receivables	16	**1,265**	1,145
Cash and cash equivalents	17	**103,014**	2,239
		104,279	3,384
Total assets		**214,873**	52,748
Liabilities			
Current liabilities			
Trade and other payables	18	**(1,250)**	(2,354)
Borrowings	19	**–**	(8,625)
		(1,250)	(10,979)
Net current assets/(liabilities)		**103,029**	(7,595)
Non-current liabilities			
Provisions	21	**–**	(1,005)
Total liabilities		**(1,250)**	(11,984)
Net assets		**213,623**	40,764
Equity			
Called up share capital	23	**19,094**	12,378
Share premium account	24	**462,249**	265,899
Share option reserve	24	**10,575**	3,845
Equity reserve	24	**–**	–
Profit and loss account	24	**(278,295)**	(241,358)
Shareholders' funds		**213,623**	40,764

These financial statements were approved by the Board of Directors and authorised for issue on 30 April 2009. They were signed on its behalf by:

Robert Wilde
Director

Company Cash Flow Statement

for the year ended 31 December 2008

	Note	**2008 $000**	2007 $000
Operating activities			
Cash used in operations	26	**(14,595)**	(17,600)
Interest received		**–**	320
Interest paid		**(160)**	(58)
Net cash used in operating activities		**(14,755)**	(17,338)
Investing activities			
Purchase of property, plant and equipment		**(229)**	(35)
Proceeds from sale of investment		**–**	1,481
Investment in Group companies		**(61,270)**	(2,271)
Net cash used in investing activities		**(61,499)**	(825)
Financing activities			
Proceeds from borrowings		**1,500**	9,000
Settlement of borrowings		**(10,500)**	–
Funds received in connection with share options		**7,075**	655
Proceeds from issue of shares		**206,030**	–
Payment of share issue costs		**(9,407)**	–
Interest received on surplus funds from share issue		**5,334**	–
Payment of debt issue costs		**–**	(671)
Net cash from financing activities		**200,032**	8,984
Net increase/(decrease) in cash and cash equivalents		**123,778**	(9,179)
Cash and cash equivalents at beginning of year		**2,239**	11,215
Effect of foreign exchange rate changes		**(23,003)**	203
Cash and cash equivalents at end of year	17	**103,014**	2,239

Notes
forming part of the financial statements

1. Accounting Policies
Regal Petroleum plc is a company listed on the Alternative Investment Market and incorporated in the United Kingdom under the Companies Act 1985. The registered office is Lansdowne House, 57 Berkeley Square, London W1J 6ER and registered number is 4462555. The principal activities of the Group and the nature of the Group's operations are set out in the Directors' Report. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Going Concern
The financial statements have been prepared in accordance with the going concern basis of accounting. The use of this basis of accounting takes into consideration the Group's current and forecast financing position, additional details of which are provided in the Going Concern section of the Directors' Report.

Basis of Preparation
This is the second year in which the Group has prepared its financial statements under International Financial Reporting Standards (IFRS), as issued by the IASB and as adopted by the European Union. The financial statements are prepared on the historical cost basis except for valuation of certain share-based payments and other financial assets.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's financial statements from 2009 or later periods, but the Group has not early adopted them.

IFRS 2 (Amended)	'Share based payment – Vesting conditions and cancellations'
IFRS 3 (Revised 2008)	'Business Combinations'
IFRS 8	'Operating Segments'
IAS 1 (Revised 2007)	'Presentation of Financial Statements'
IAS 23 (Revised 2007)	'Borrowing Costs'
IAS 27 (Revised 2008)	'Consolidated and Separate Financial Statements'
IAS 32 (Amended)	'Puttable Financial Instruments and Obligations Arising on Liquidation'
IFRIC 12	'Service Concession Arrangements'
IFRIC 15	'Agreements for the Construction of Real Estate'
IFRIC 16	'Hedges of a Net Investment in a Foreign Operation'

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group, however IFRS 8 is expected to give rise to additional segmental disclosure.

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. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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.

Notes continued
forming part of the financial statements

1. Accounting Policies continued

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 commercial 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 less costs to sell 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 property, plant and equipment 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. The unwinding of the discount on the decommissioning provision is included within finance costs.

Intangible Assets Other Than Oil and Gas Assets

Intangible assets other than oil and gas assets are stated at cost less accumulated depreciation and any provision for impairment. These assets represent intangible computer software. Depreciation is charged so as to write off the cost, less estimated residual value on a straight-line basis of 20–25% per annum.

1. Accounting Policies continued

Property, Plant and Equipment Other Than Oil and Gas Assets

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 (including vehicles under finance leases)	20–25% per annum straight-line
Plant and machinery	20–25% per annum straight-line

Inventories

Inventories typically consist of materials and hydrocarbons, and 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. In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency ('foreign currencies') are recorded 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 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on balances which are considered long term investments 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 foreign exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

With effect from 1 January 2008 the functional currency of two of the Group's Ukrainian subsidiaries was changed from Ukrainian Hryvnia to US Dollars. The change was triggered by the increasing influence of the US Dollar on the subsidiaries' operations. The exchange rate used for the revaluation of the closing balance sheet at 31 December 2007 was 1UAH/$0.202.

In the prior year, foreign exchange gains and losses were classified within administrative expenses. In the current year, they have been reclassified into other gains and losses to reflect the non-operating nature of the underlying balances on which these gains and losses arise.

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 income statement 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 the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Notes continued
forming part of the financial statements

1. Accounting Policies continued

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.

Investments in subsidiaries are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

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.

1. Accounting Policies continued

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. These cash balances include both funds held in a separate bank account and deposits made as security for certain third-party obligations.

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 oustanding at 31 December 2008 have been treated as 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.

The Group has also issued certain cash-settled share-based payments to certain employees although these were all fully vested and settled by 31 December 2008. For such awards, a liability equal to the portion of the goods or services received was recognised at the current fair value determined at each balance sheet date.

In addition, the Group has warrants relating to equity raisings, the fair value of which has been treated as a cost of the equity raising and recognised against the share premium account.

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.

Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Recoverability of Intangible Oil and Gas Costs

Costs capitalised as intangible assets are assessed for impairment when circumstances suggest that the carrying value may exceed its recoverable value. This assessment involves judgment as to the likely commerciality of the asset, the future revenues and costs pertaining and the discount rate to be applied for the purposes of deriving a recoverable value.

Decommissioning

The Group has decommissioning obligations in respect of its Ukraine asset. The full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs.

Notes continued
forming part of the financial statements

1. Accounting Policies continued

Depreciation of Oil and Gas Assets

Oil and gas assets held in property, plant and equipment are mainly depreciated on a unit of production basis at a rate calculated by reference to proven and probable reserves and incorporating the estimated future cost of developing and extracting those reserves. Future development costs are estimated using assumptions as to the number of wells required to produce those reserves, the cost of the wells, future production facilities and operating costs, together with assumptions on oil and gas realisations, and are revised on an annual basis. The reserves estimates used are determined using estimates of oil in place, recovery factors and future oil prices.

Share-based Payments

Management is required to make assumptions in respect of the inputs used to calculate the fair values of share-based payment arrangements, further details of which are provided in Note 23.

2. Segmental 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 United Kingdom. These geographical regions are the basis on which the Group reports its primary segment information.

	Ukraine		United Kingdom		Romania		Egypt		Unallocated		Total	
	2008 $000	2007 $000	**2008 $000**	2007 $000	**2008 $000**	2007 $000	**2008 $000**	2007 $000	**2008 $000**	2007 $000	**2008 $000**	2007 $000
Turnover												
Gas sales	**6,625**	7,430	**–**	–	**–**	–	**–**	–	**–**	–	**6,625**	7,430
Condensate sales	**4,825**	6,834	**–**	–	**–**	–	**–**	–	**–**	–	**4,825**	6,834
Total sales (and sales to third parties)	**11,450**	14,264	**–**	–	**–**	–	**–**	–	**–**	–	**11,450**	14,264
Operating profit/(loss)	**1,215**	4,939	**(21,878)**	(22,579)	**(2,982)**	(1,799)	**(1,182)**	(1,234)	**–**	(159)	**(24,827)**	(20,832)
Interest received	**4**	12	**5,474**	332	**17**	21	**6**	59	**–**	–	**5,501**	424
Segment assets	**88,654**	35,133	**104,658**	4,569	**22,273**	23,743	**4,809**	4,121	**–**	8	**220,394**	67,574
Segment liabilities	**(2,969)**	(885)	**(7,552)**	(15,649)	**(222)**	(1,908)	**(753)**	(1,046)	**(3,265)**	(2,431)	**(14,761)**	(21,919)
Capital additions	**29,984**	5,679	**229**	33	**4,361**	3,450	**2,036**	3,671	**–**	–	**36,610**	12,833
Depreciation	**(1,821)**	(947)	**(190)**	(194)	**(11)**	(18)	**–**	(3)	**–**	–	**(2,022)**	(1,162)

There are no inter-segment sales within the Group and all products are sold in the geographical region they are produced in. The Group's gas sales of $6,625,000 (2007: $7,430,000) are with one single external party with which the Group has an agreement. Total of revenue generated from operating and interest revenue is $16,951,000 (2007: $14,688,000).

3. Loss on Ordinary Activities Before Taxation

	2008 $000	2007 $000
Loss on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration (see below)	**289**	423
Professional fees in relation to divestment of Ukrainian asset	**–**	1,210
Depreciation	**2,022**	1,162
Production based taxes	**2,328**	3,093
Staff costs	**17,578**	17,256

3. Loss on Ordinary Activities Before Taxation continued

	2008 $000	2007 $000
Audit services:		
Fees payable to the Company's auditors for the audit of the Parent Company and Consolidated accounts	**146**	163
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries pursuant to legislation	**67**	17
	213	180
Other services:		
Other services pursuant to legislation – interim review	**25**	30
Other services relating to taxation	**51**	205
Other	**–**	8
	76	243
Total audit and other services	**289**	423

Auditors' remuneration in 2007, together with the fee for the 2008 interim review were paid to UHY Hacker Young LLP. All other amounts shown as auditors' remuneration were payable to Deloitte LLP.

4. Other Gains and Losses

	2008 $000	2007 $000
Unrealised foreign exchange losses	**23,337**	189
Realised foreign exchange losses	**5,551**	63
Total	**28,888**	252

Unrealised foreign exchange losses include losses arising on the revaluation at year end of cash and cash equivalents held in currencies other than the functional currency of the relevant entity. The Group holds currencies to match the expected underlying currencies of anticipated capital and operational expenditure.

Realised foreign exchange losses arise due to the multicurrency nature of the Group's trading activities.

5. Sale of Investment

The Company announced on 21 December 2007 that it had completed the sale of its entire shareholding in Eurotech Services SA. Eurotech Services SA is a holding company incorporated in Greece through which the Company previously held its 95% economic interest in Kavala Oil SA. Under the terms of the sale, the Company sold the entire issued share capital of Eurotech Services SA to an unrelated company for a cash consideration of $1.5 million. The Company had impaired the value of its investment in Eurotech Services SA in its accounts for the year ended 31 December 2006 to $nil.

In addition and as announced on 21 December 2007, the Company disposed of its interest in Blocks 8 and 9 offshore Liberia, through the disposal of its wholly owned subsidiary Regal Liberia Limited. The disposal was for nominal consideration.

6. Remuneration of Directors

	2008 $000	2007 $000
Directors' emoluments	**2,526**	9,185

Notes continued
forming part of the financial statements

6. **Remuneration of Directors** continued

The emoluments of the individual Directors were as follows:

	Basic salary and fees 2008 $000	Bonus 2008 $000	Benefits in kind 2008 $000	Aggregate emoluments 2008 $000	Pension contributions 2008 $000	**Total emoluments 2008 $000**	Total emoluments 2007 $000
K Henry	105	–	–	105	–	**105**	–
D J Greer	487	769	30	1,286	44	**1,330**	38
H Verkuil	313	130	26	469	43	**512**	–
R Wilde	216	87	13	316	22	**338**	–
Lord St John of Bletso	89	–	–	89	–	**89**	50
A Mozetic	119	–	–	119	–	**119**	–
A Coates	21	–	–	21	–	**21**	–
F Scolaro	12	–	–	12	–	**12**	6,387
N Ritson	–	–	–	–	–	**–**	2,555
R S C Phillips	–	–	–	–	–	**–**	155
	1,362	986	69	2,417	109	**2,526**	9,185

In addition to the above, F Scolaro received $23,190 (2007: $150,136) in consulting fees in recognition of additional services performed while a Director.

No amounts have been paid to Directors during the year as compensation in respect of loss of office (2007: $1,186,073).

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by Directors (2007: nil). Details of the options exercised during the year are as follows:

Name of Director	Scheme	Number of options	Exercise price £	Market price at exercise date £	Gains on exercise 2008 $
Lord St John of Bletso	2004 Share Option Scheme	500,000	0.835	2.065	1,140,936

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year except as indicated below:

Name of Director	At start of year	Granted	Exercised	At end of year	Exercise price £	Date from which exercisable	Expiry date
Keith Henry	–	250,000	–	250,000	1.50	15.04.2009	07.07.2018
	–	250,000	–	250,000	1.50	15.04.2010	07.07.2018
	–	250,000	–	250,000	1.50	15.04.2011	07.07.2018
David Greer	–	1,000,000	–	1,000,000	1.50	–	04.02.2018
	–	1,000,000	–	1,000,000	1.50	–	04.02.2018
	–	500,000	–	500,000	2.50	20.06.2008	04.02.2018
Harry Verkuil	–	500,000	–	500,000	1.50	–	04.02.2018
	–	500,000	–	500,000	2.00	–	04.02.2018
	–	500,000	–	500,000	2.50	20.06.2008	04.02.2018
Robert Wilde	–	500,000	–	500,000	1.50	–	07.07.2018
	–	500,000	–	500,000	2.00	–	07.07.2018
	–	500,000	–	500,000	2.50	01.05.2011	07.07.2018
Antonio Mozetic	–	350,000	–	350,000	1.50	04.02.2009	04.02.2018
Lord St John of Bletso	500,000	–	(500,000)	–	0.835	–	–
	250,000	–	–	250,000	0.875	24.10.2006	23.04.2015
	–	250,000	–	250,000	1.500	04.02.2009	07.07.2018
Adrian Coates	–	83,334	–	83,334	1.9125	18.07.2009	17.07.2018
	–	83,333	–	83,333	1.9125	18.07.2010	17.07.2018
	–	83,333	–	83,333	1.9125	18.07.2011	17.07.2018

Options granted under the 2004 Share Option Scheme are subject to specific performance criteria. The criteria ranges include continuing employment with the Company, specific operational targets being met and/or the market performance of the share price.

7. Staff Numbers and Costs

The average monthly number of employees on a full time equivalent basis during the year (including Executive Directors) was as follows:

	Number of employees	
	2008	2007
Group		
Management/operational	**93**	90
Administrative support	**36**	29
Total	**129**	119

The aggregate staff costs of these employees were as follows:

	2008 $000	2007 $000
Wages and salaries	**6,809**	7,901
Social security costs	**897**	1,294
Pension costs	**752**	572
Share option charge (see note 23)	**9,120**	7,489
	17,578	17,256

The Company does not incur any direct staff costs as United Kingdom based employees are employed by a subsidiary company.

8. Finance Costs

	2008 $000	2007 $000
Interest on bank loans	**87**	131
Interest on obligations under finance leases	**33**	11
Finance and arrangement fees	**405**	285
	525	427

9. Taxation

Analysis of charge in period:

	2008 $000	2007 $000
Current tax		
Foreign tax on income for the period	**214**	1,190
Deferred tax		
UK – current year	**1,860**	1,233
Tax on profit on ordinary activities	**2,074**	2,423

Factors Affecting the Tax Charge for the Current Period

The tax charge for the period is higher than the standard rate of corporation tax in the UK of 28.5% (2007: 30%). The differences are explained below.

	2008 $000	2007 $000
Current tax reconciliation		
Loss on ordinary activities before tax	**(48,739)**	(19,612)
Current tax credit at 28.5 % (2007: 30%)	**(13,891)**	(5,884)
Effects of:		
Tax effect of lower foreign corporate tax rates on loss making entities	**753**	–
Disallowed expenses and non-taxable income	**4,497**	1,494
Gain on disposal of investment	**–**	(400)
Other temporary differences	**–**	436
Tax effect of losses not recognised	**10,715**	6,140
Prior year adjustment	**–**	637
Total tax charge (see above)	**2,074**	2,423

Notes continued
forming part of the financial statements

9. Taxation continued

Factors Affecting Future Tax Charge

The Directors do not consider it appropriate to provide for any deferred tax asset to reflect the potential benefit arising from temporary differences at 31 December 2008 as there is insufficient evidence of future taxable profits. At 31 December 2008, and in gross terms, there were unrecognised deferred tax assets in respect of estimated UK tax losses carried forward of up to $150 million (2007: $99 million) and other differences amounting to $0.5 million (2007: $0.2 million).

The majority of the Group's carried forward tax losses can be carried forward indefinitely. Tax losses of $12.8 million carried forward by Regal Petroleum Romania will generally expire after five years of being incurred.

10. Loss for the Financial Year

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. The Group loss for the period includes a parent company loss after tax of $39,881,000 for the year ended 31 December 2008 (2007: $21,168,000).

11. Loss per Share

Basic loss per share of 25.6 cents (2007: 16.2 cents) is based upon losses of $50,813,000 (2007: $22,035,000) and 198,378,455 (2007: 136,373,710) ordinary shares being the weighted average number of shares. As the exercise of options would be anti-dilutive they have been excluded from the computation of diluted loss per share in both periods.

12. Intangible Fixed Assets

	2008				2007			
	Exploration Assets		**Computer**		Exploration Assets		Computer	
	Romania	**Egypt**	**Software**	**Total**	Romania	Egypt	Software	Total
Group	**$000**	**$000**	**$000**	**$000**	$000	$000	$000	$000
Cost								
At beginning of year	**22,245**	**3,654**	**263**	**26,162**	19,695	835	264	20,794
Additions	**4,360**	**2,027**	**184**	**6,571**	3,448	3,671	5	7,124
Disposals	**–**	**–**	**–**	**–**	(39)	–	(6)	(45)
Transfer to inventory	**–**	**–**	**–**	**–**	(211)	–	–	(211)
Exploration costs written off	**(2,580)**	**(887)**	**–**	**(3,467)**	(1,414)	(852)	–	(2,266)
Effect of movement in foreign exchange	**(2,838)**	**–**	**–**	**(2,838)**	766	–	–	766
At end of year	**21,187**	**4,794**	**447**	**26,428**	22,245	3,654	263	26,162
Depreciation								
At beginning of year	**–**	**–**	**170**	**170**	–	–	122	122
Charge for year	**–**	**–**	**58**	**58**	–	–	55	55
On disposals	**–**	**–**	**–**	**–**	–	–	(7)	(7)
At end of year	**–**	**–**	**228**	**228**	–	–	170	170
Net book value								
At 31 December	**21,187**	**4,794**	**219**	**26,200**	22,245	3,654	93	25,992

Company	**Computer Software 2008 $000**	Computer Software 2007 $000
Cost		
At beginning of year	**222**	222
Additions	**163**	–
At end of year	**385**	222
Depreciation		
At beginning of year	**136**	92
Charge for year	**48**	44
At end of year	**184**	136
Net book value		
At 31 December	**201**	86

13. Property, Plant and Equipment

Group	**2008** Exploration and development costs Ukraine $000	**2008** Other fixed assets $000	**2008** Total $000	2007 Exploration and development costs Ukraine $000	2007 Other fixed assets $000	2007 Total $000
Cost						
At beginning of year	**36,872**	**1,441**	**38,313**	32,078	1,278	33,356
Additions	**29,661**	**378**	**30,039**	5,518	191	5,709
Disposals	**–**	**–**	**–**	–	(18)	(18)
Effect of movement in foreign exchange	**(38)**	**(106)**	**(144)**	(724)	(3)	(727)
Impairment of fixed assets	**–**	**–**	**–**	–	(7)	(7)
At end of year	**64,495**	**1,713**	**68,208**	36,872	1,441	38,313
Depreciation						
At beginning of year	**3,871**	**881**	**4,752**	3,051	685	3,736
Charge for year	**1,738**	**226**	**1,964**	890	217	1,107
On disposals	**–**	**–**	**–**	–	(18)	(18)
Effect of movement in foreign exchange	**–**	**(96)**	**(96)**	(70)	(3)	(73)
At end of year	**5,609**	**1,011**	**6,620**	3,871	881	4,752
Net book value						
At 31 December	**60,886**	**702**	**61,588**	33,001	560	33,561

* Other fixed assets include fixtures, fittings and equipment, motor vehicles and plant and machinery.

Company	**Other fixed assets 2008 $000**	Other fixed assets 2007 $000
Cost		
At beginning of year	**870**	837
Additions	**66**	33
At end of year	**936**	870
Depreciation		
At beginning of year	**515**	366
Charge for year	**142**	149
At end of year	**657**	515
Net book value		
At 31 December	**279**	355

14. Fixed Asset Investments

Company	Shares in Group undertakings $000	Loans to Group undertakings $000	Total $000
Cost			
At 1 January 2007	17,355	29,584	46,939
Additions	–	2,060	2,060
Disposals	(76)	–	(76)
At 31 December 2007	17,279	31,644	48,923
Cost			
At 1 January 2008	17,279	31,644	48,923
Additions	–	61,191	61,191
At 31 December 2008	**17,279**	**92,835**	**110,114**

Notes continued
forming part of the financial statements

14. **Fixed Asset Investments** continued
Principal Subsidiary Undertakings

At 31 December 2008, the Company's principal subsidiary undertakings, all of which are included in the consolidated financial statements, were:

	Country of incorporation	Country of operation	Principal activity	Percentage of shares held
Regal Petroleum (Jersey) Limited	Jersey	Ukraine	Holding company	100%
Regal Petroleum Corporation Limited	Jersey	Ukraine	Oil & Natural Gas Extraction	100%
Regal Petroleum Ukraine Limited	Ukraine	Ukraine	Oil & Natural Gas Extraction	100%
Regal Petroleum Corporation (Ukraine) Limited	Ukraine	Ukraine	Service Company	100%
Regal Romania SRL	Romania	Romania	Oil & Natural Gas Extraction	100%
Regal Egypt Limited	United Kingdom	Egypt	Oil & Natural Gas Extraction	100%
Regal Group Services Limited	United Kingdom	United Kingdom	Service Company	100%

The parent company holds indirect interest of 100% of the share capital of Regal Petroleum Corporation Limited, Regal Petroleum Ukraine Limited and Regal Petroleum Corporation (Ukraine) Limited with all other companies owned directly by the parent company. Regal Petroleum Corporation Limited and Regal Petroleum Ukraine Limited are controlled through its 100% ownership of Regal Petroleum (Jersey) Limited. Regal Petroleum Corporation (Ukraine) Limited was incorporated this year and is controlled by its 100% ownership by Regal Petroleum (Jersey) Limited and Regal Group Services Limited.

15. Inventories

	Group	
	2008 $000	2007 $000
Materials	**18,832**	211
Condensate stock	**189**	86
	19,021	297

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

16. Trade and Other Receivables

	Group		Company	
	2008 $000	2007 $000	**2008 $000**	2007 $000
Trade receivables	**57**	1	**–**	–
Amounts owed by Group undertakings	**–**	–	**332**	332
Prepayments and accrued income	**1,730**	1,199	**580**	428
Purchase tax receivable	**5,428**	775	**–**	–
Other receivables	**292**	384	**353**	585
– Allowance for doubtful debts	**–**	(200)	**–**	(200)
	7,507	2,159	**1,265**	1,145

None of the Group's trade receivables are past due or impaired. All trade receivables are considered to be of high credit quality.

17. Cash and Cash Equivalents

	Group		Company	
	2008 $000	2007 $000	**2008 $000**	2007 $000
Cash at bank and on hand	**1,861**	5,083	**97**	2,223
Short-term deposits on hand	**73,799**	16	**73,696**	16
Restricted cash	**30,418**	466	**29,221**	–
	106,078	5,565	**103,014**	2,239

Cash at bank earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is $106,078,000 (2007: $5,565,000). The Group only deposits cash surpluses with major banks of high quality credit standing.

17. Cash and Cash Equivalents continued

Restricted cash is held on fixed term deposits in support of Letters of Credit which are required under contractual agreements relating to the Group's investment strategy in Ukraine.

18. Trade and Other Payables

	Group		Company	
	2008 $000	2007 $000	**2008 $000**	2007 $000
Trade payables	**2,669**	5,709	**862**	618
Taxation and social security	**603**	388	**–**	–
Accruals and deferred income	**5,766**	4,390	**388**	1,736
	9,038	10,487	**1,250**	2,354

The Directors consider that the carrying amount of trade payables approximates to their fair value.

19. Borrowings

	Group		Company	
	2008 $000	2007 $000	**2008 $000**	2007 $000
Secured revolving credit facility drawn	**–**	9,000	**–**	9,000
Unamortised borrowing costs	**–**	(375)	**–**	(375)
	–	8,625	**–**	8,625

On 13 September 2007 the Group entered into an agreement with Bank of Scotland for a US Dollar revolving credit facility of up to $15 million for a term of one year. Amounts drawn incurred interest at LIBOR plus an applicable margin and the facility was secured via a charge over the Group's shares. In February 2008, the Company drew a further $1.5 million on this facility. The total amount outstanding was repaid from share placement proceeds and the facility cancelled in full in April 2008. Interest paid on this facility has not been capitalised as the facility was used to fund operational cash flows.

20. Obligations Under Finance Leases

	Group	
	2008 $000	2007 $000
Amounts payable under finance leases:		
Within one year	**97**	39
In the second to fifth years inclusive	**244**	72
	341	111
Less future finance, service and insurance charges	**(195)**	(57)
Present value of lease obligations	**146**	54
Amount due for settlement within 12 months (shown under current liabilities)	**45**	13
Amount due for settlement after 12 months	**101**	41

The finance leases relate to motor vehicles in Ukraine. The average lease term is three years. For the year ended 31 December 2008, the average effective borrowing rate was 14.67% (2007: 14.24%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in Ukrainian Hryvnia and translated to US Dollars. The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The Directors consider that the fair value of the Group's lease obligations approximates their carrying amount.

Notes continued
forming part of the financial statements

21. Provisions for Liabilities and Charges

Group	Provision for decommissioning $000	Provision for national insurance on share options $000	Other $000	Total $000
At beginning of year	200	1,005	78	1,283
Amounts provided	2,074	–	33	2,107
Amounts utilised/reversed	–	(1,005)	(27)	(1,032)
At end of year	**2,274**	**–**	**84**	**2,358**

The provision for decommissioning is based on the net present value of the Group's estimated liability for the removal of the Ukraine production facilities and site restoration at the end of the production life. These costs are expected to be incurred between 2010 and 2024.

The effect of discounting on other provisions would be immaterial.

Company	Provision for national insurance on share options $000
At beginning of year	1,005
Amounts provided	–
Amounts utilised/reversed	(1,005)
At end of year	**–**

22. Deferred Tax

	Group	
	2008 $000	2007 $000
At beginning of year	**1,233**	–
Charged to income statement – current year	**1,860**	1,233
At end of year	**3,093**	1,233

This deferred tax liability arises as a result of temporary differences between the carrying values and tax bases of fixed assets in Ukraine.

23. Called Up Share Capital

	2008		2007	
	Number	**$000**	Number	$000
Authorised				
Ordinary shares of 5 pence each (approximately 9 cents each)	**300,000,000**	**17,905**	300,000,000	17,905
Allotted, Called Up and Fully Paid				
Opening balance at 1 January	**143,028,824**	**12,378**	128,508,201	10,934
Issued during the year:				
– Exercise of share options	**3,800,000**	**377**	610,000	60
– Share issue	**64,816,840**	**6,339**	13,910,623	1,384
Closing balance at 31 December	**211,645,664**	**19,094**	143,028,824	12,378

There are no restrictions over ordinary shares issued.

23. Called Up Share Capital continued

Share Option Scheme

The only share option plan operated during the year was the 2004 share option plan. Options granted under the 2004 Share Option Scheme are subject to specific vesting criteria. The criteria ranges and includes continuing employment with the Company, specific operational targets being met and/or the market performance of the share price. In addition to the share option plan, the Company holds agreements with two parties granting the right to subscribe for shares in the Company.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2008 Number	**2008 WAEP**	2007 Number	2007 WAEP
Outstanding at beginning of year	**4,175,000**	**1.000**	3,225,000	0.892
Granted during the year	**11,386,600**	**1.801**	5,516,714	1.512
Exercised during the year	**(3,800,000)**	**(0.937)**	(610,000)	0.546
Expired during the year	**(25,000)**	**(1.480)**	(3,956,714)	1.603
Outstanding at end of year	**11,736,600**	**1.796**	4,175,000	1.000
Exercisable at end of year	**2,211,600**	**1.976**	4,110,000	0.992

The principal inputs to the options valuation model were:

2008	
Exercise price range	87.5p to 360p
Remaining contractual life	1 to 10 years
Weighted average share price	93.7p
Risk free interest rate	4.5%–5.5%p.a.
Expected volatility	60%–150% p.a.
Dividend yield	0% p.a.
Employee turnover	From 0%–10% p.a. depending on seniority
Early exercise	At rates dependent upon seniority and potential gain from exercise

2007	
Exercise price range	41.6p to 360p
Remaining contractual life	1 to 10 years
Weighted average share price	54.6p
Risk free interest rate	4.5%–5.5%p.a.
Expected volatility	60%–150% p.a.
Dividend yield	0% p.a.
Employee turnover	From 0%–10% p.a. depending on seniority
Early exercise	At rates dependent upon seniority and potential gain from exercise

Expected volatility has been determined by reference to the historic annualised volatility of the Company's share return.

The fair values and expected lives of the options valued in accordance with IFRS 2 were:

	Weighted average fair value £	Weighted average expected life from grant date Years
2006	0.357	1.29
2007	0.456	1.09
2008	1.069	1.83

The Company recognised a total charge of $9,753,000 (2007: $7,489,000) in respect of equity and cash settled share based awards. This includes an additional charge of $633,000 (2007: $nil) which was recognised within the share premium account to reflect the fair value of warrants granted in relation to a share placing that took place during the year.

Notes continued
forming part of the financial statements

24. Share Premium and Reserves

Group	Share capital $000	Share premium account $000	Equity share option reserve $000	Shares to be issued $000	Merger reserve $000	Capital contributions $000	Foreign exchange reserve $000	Profit and loss account $000	Total $000
At 1 January 2007	10,934	217,640	2,031	49,049	(3,204)	7,477	4,294	(224,597)	63,624
Retained loss for the year	–	–	–	–	–	–	–	(22,035)	(22,035)
Current year IFRS 2 charge	–	–	3,143	–	–	–	–	–	3,143
Issued shares	1,444	48,259	–	(49,049)	–	–	–	–	654
Exchange differences	–	–	–	–	–	–	269	–	269
Transfer for options exercised or expired	–	–	(1,329)	–	–	–	–	1,329	–
At 31 December 2007	12,378	265,899	3,845	–	(3,204)	7,477	4,563	(245,303)	45,655

	Share capital $000	**Share premium account $000**	**Equity share option reserve $000**	**Shares to be issued $000**	**Merger reserve $000**	**Capital contributions $000**	**Foreign exchange reserve $000**	**Profit and loss account $000**	**Total $000**
At 1 January 2008	**12,378**	**265,899**	**3,845**	**–**	**(3,204)**	**7,477**	**4,563**	**(245,303)**	**45,655**
Retained loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(50,813)**	**(50,813)**
Current year IFRS 2 charge	**–**	**–**	**9,753**	**–**	**–**	**–**	**–**	**–**	**9,753**
Issued shares	**6,716**	**206,390**	**–**	**–**	**–**	**–**	**–**	**–**	**213,106**
Share issue costs	**–**	**(10,040)**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,040)**
Exchange differences	**–**	**–**	**–**	**–**	**–**	**–**	**(2,028)**	**–**	**(2,028)**
Transfer for options exercised or expired	**–**	**–**	**(3,023)**	**–**	**–**	**–**	**–**	**3,023**	**–**
At 31 December 2008	**19,094**	**462,249**	**10,575**	**–**	**(3,204)**	**7,477**	**2,535**	**(293,093)**	**205,633**

Equity Share Option Reserve
The balance held in the equity share option reserve relates to the fair value of the share options that have been expensed through the profit and loss account less any amounts that have been transferred to the profit and loss account reserve upon excercise.

Shares to be Issued Reserve
The shares to be issued reserve is non-distributable and relates to the value of ordinary shares to be issued during 2007.

Capital Contributions Reserve
The capital contributions reserve is non-distributable and represents the value of equity invested in subsidiary entities prior to the Company listing.

Merger Reserve
The merger reserve represents the difference between the nominal value of shares acquired by the Company and those issued to acquire subsidiary undertakings. This balance relates wholly to the acquisition of Regal Petroleum (Jersey) Limited and that company's acquisition of Regal Petroleum Corporation Limited during 2002.

Foreign Exchange Reserve
Exchange reserve movement for the year attributable to currency fluctuations.

Company	Share capital $000	Share premium account $000	Equity share option reserve $000	Shares to be issued $000	Profit and loss contributions $000	Total $000
At 1 January 2007	10,934	217,640	2,031	49,049	(221,519)	58,135
Retained loss for the year	–	–	–	–	(21,168)	(21,168)
Current year IFRS 2 charge	–	–	3,143	–	–	3,143
Issued shares	1,444	48,259	–	(49,049)	–	654
Transfer for options exercised or expired	–	–	(1,329)	–	1,329	–
At 31 December 2007	12,378	265,899	3,845	–	(241,358)	40,764

24. Share Premium and Reserves continued

	Share capital $000	Share premium account $000	Equity share option reserve $000	Shares to be issued $000	Profit and loss contributions $000	Total $000
At 1 January 2008	**12,378**	**265,899**	**3,845**	**–**	**(241,358)**	**40,764**
Retained loss for the year	**–**	**–**	**–**	**–**	**(39,881)**	**(39,881)**
Current year IFRS 2 charge	**–**	**–**	**9,753**	**–**	**–**	**9,753**
Issued shares	**6,716**	**206,390**	**–**	**–**	**–**	**213,106**
Share issue costs	**–**	**(10,040)**	**–**	**–**	**–**	**(10,040)**
Transfer for options exercised or expired	**–**	**–**	**(3,023)**	**–**	**3,023**	**–**
Other	**–**	**–**	**–**	**–**	**(79)**	**(79)**
At 31 December 2008	**19,094**	**462,249**	**10,575**	**–**	**(278,295)**	**213,623**

25. Operating Lease Arrangements

The Group as Lessee

	Group		Company	
	2008 $000	2007 $000	**2008 $000**	2007 $000
Minimum lease payments under operating leases recognised as an expense for the year	**304**	341	**304**	341

Leases on office property are negotiated for an average of five years and rentals are fixed for an average of five years.

At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

Group and Company	**2008 Land and buildings $000**	2007 Land and buildings $000
Amounts payable due:		
– Within one year	**327**	442
– In the second to fifth years inclusive	**1,585**	147
	1,912	589

26. Reconciliation of Operating Loss to Operating Cash Flow

Group	**2008 $000**	2007 $000
Operating loss	**(24,827)**	(20,832)
Depreciation, amortisation and impairment charges	**2,022**	1,162
Movement in provisions	**(1,249)**	333
Decrease/(increase) in stock	**73**	(260)
(Increase)/decrease in debtors	**(233)**	1,189
(Decrease)/increase in creditors	**(1,532)**	5,673
Share option charge	**9,120**	3,143
Exploration costs written off	**3,467**	2,266
Cash used in operations	**(13,159)**	(7,326)

Company	**2008 $000**	2007 $000
Operating loss	**(21,851)**	(22,575)
Depreciation, amortisation and impairment charges	**190**	332
Share option charge	**9,120**	3,143
Write off borrowing costs	**375**	–
Movement in provisions	**(1,171)**	260
Increase in debtors	**(120)**	(79)
(Decrease)/increase in creditors	**(1,138)**	1,319
Cash used in operations	**(14,595)**	(17,600)

Notes continued
forming part of the financial statements

27. Financial Instruments

Capital Risk Management

The Group manages its capital to ensure that it is able to continue as a going concern whilst maximising the return to stakeholders. The Company's overall strategy remains unchanged from 2007.

The capital structure of the Group consists of equity attributable to the equity holders of the parent, comprising issued share capital, share premium, reserves and retained earnings as disclosed in Note 24.

There are no capital requirements imposed on the Group.

The Group's financial instruments comprise loans, short term investments, cash and various items such as debtors and creditors that arise directly from its operations. The Group has bank accounts denominated in British Pounds, Egyptian Pounds, US Dollars, Euros, Ukraine Hryvnia and Romanian Lei. As at 31 December 2008 the Group does not have any long term borrowings (2007: $nil), however the Group had drawn $9.0 million on a 1 year, $15 million revolving credit facility as at 31 December 2007. This facility was repaid during 2008. The main future risks arising from the Group's financial instruments are currently currency risk, interest rate risk and liquidity risk.

The Group's financial assets and financial liabilities comprise the following:

Financial assets	2008 $000	2007 $000
Cash and cash equivalents	**106,078**	5,565
Trade and other receivables	**348**	384
	106,426	5,949

Financial liabilities	2008 $000	2007 $000
Bank borrowings	**–**	9,000
Unamortised borrowing costs	**–**	(375)
Trade and other payables	**2,352**	3,539
Accruals	**5,424**	2,520
	7,776	14,684

Currency Risk

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

Currency	2008 $000	2007 $000
British Pounds	**31,191**	587
Euros	**64,131**	1,853
Ukraine Hryvnia	**4,104**	482
Romanian Lei	**109**	(1,042)
	99,535	1,880

Further disclosure regarding foreign currency risk management including how potential exposures are managed is discussed in the Finance Review.

Foreign Currency Sensitivity Analysis

The Group is mainly exposed to the currency of the European Union (Euro), the currency of Great Britain (Sterling), and the currency of Ukraine (Hryvnia).

The following table details the Group's sensitivity to a 10% increase and decrease in the US Dollar against the stated currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis comprises money market deposits held at the balance sheet date. A positive number below indicates an increase in profit and other equity where the US Dollar weakens 10% against the relevant currency. For a 10% strengthening of the US Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

27. Financial Instruments continued

Currency	Euro currency change 2008 $000	Euro currency change 2007 $000	Sterling currency change 2008 $000	Sterling currency change 2007 $000	Hryvnia currency change 2008 $000	Hryvnia currency change 2007 $000
Profit or loss						
– 10% strengthening of US Dollar	**(4,984)**	(131)	**(3,227)**	(4)	**(47)**	(111)
– 10% weakening of US Dollar	**4,984**	131	**3,227**	4	**47**	111
Other equity						
– 10% strengthening of US Dollar	**(4,984)**	(131)	**(3,227)**	(4)	**(47)**	(111)
– 10% weakening of US Dollar	**4,984**	131	**3,227**	4	**47**	111

Interest Rate Risk Management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group does not use interest rate forward contracts and interest rate swap contracts as part of its strategy.

The Group is exposed to interest rate risk as entities in the Group hold money market deposits at floating interest rates. The risk is managed by fixing interest rates for a period of time when indications exist that interest rates may move adversely.

The Group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section below.

Interest Rate Sensitivity Analysis

The sensitivity analysis below has been determined based on exposure to interest rates for non-derivative instruments at the balance sheet date. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonable possible change in interest rates.

If interest rates earned on money market deposits had been 0.5% higher/lower and all other variables were held constant, the Group's:

- loss for the year ended 31 December 2008 would decrease/increase by $591,000 (2007: $33,000). This is mainly attributable to the Group's exposure to interest rates on its money market deposits; and
- other equity reserves would not be affected (2007: not affected).

Interest payable on the Group's liabilities would have an immaterial effect on the loss for the year.

Liquidity Risk

The Group's objective throughout the year has been to ensure continuity of funding. Operations to date have primarily been financed through capital contributions, facility drawdowns, the issue of share capital prior to January 2006 and in February and June 2008, revenue from Ukraine operations and proceeds received as a result of the joint venture in Egypt from which 75% of back costs were reimbursed.

Details of the Group's cash management are explained in Note 17.

Liquidity, credit and cash flow risk for the Group are further detailed in the Finance Review and, in respect of liquidity risk, the Going Concern section of the Directors' Report.

Interest Rate Risk Profile of Financial Assets

The Group had the following cash and cash equivalent balances which are included in financial assets as at 31 December 2008 with an exposure to interest rate risk:

Currency	2008 Total $000	2008 Floating rate financial assets $000	2008 Fixed rate financial assets $000	2007 Total $000	2007 Floating rate financial assets $000	2007 Fixed rate financial assets $000
British Pounds	**32,342**	**32,342**	**–**	741	741	–
US Dollars	**7,847**	**7,847**	**–**	1,722	1,722	–
Euros	**64,857**	**64,857**	**–**	1,899	1,899	–
Ukraine Hryvnia	**923**	**923**	**–**	1,127	1,127	–
Romanian Lei	**109**	**109**	**–**	76	76	–
Total	**106,078**	**106,078**	**–**	5,565	5,565	–

Cash deposits included in the above balances comprise deposits placed in money market funds.

Notes continued
forming part of the financial statements

27. Financial Instruments continued

Interest Rate Risk Profile of Financial Liabilities

The interest rate profile of the financial liabilities of the Group as at 31 December 2008 was:

	2008			2007		
Currency	**Total financial liabilities $000**	**Floating rate financial liabilities $000**	**Fixed rate financial liabilities $000**	Total financial liabilities $000	Floating rate financial liabilities $000	Fixed rate financial liabilities $000
US Dollar	**–**	**–**	**–**	9,000	9,000	–
Total	**–**	**–**	**–**	9,000	9,000	–

All the Group's creditors falling due within one year (other than bank borrowings) are excluded because they are not interest bearing.

The floating rate financial liabilities comprise bank borrowings bearing interest rates fixed in advance for various periods up to three months by reference to LIBOR for that time period.

Maturity of Financial Liabilities

The maturity profile of the Group's financial liabilities, on an undiscounted basis, is as follows:

	2008 $000	2007 $000
In one year or less	**7,776**	15,859
Within two to five years	**–**	–
In more than five years	**–**	–
Total	**7,776**	15,859

Borrowing Facilities

The Group did not have any borrowing facilities available to it at year end. The Group's borrowing facility which it acquired in the previous period was closed when all drawn amounts were repaid in April 2008.

	2008			2007		
Facility	**Total $000**	**Drawn $000**	**Undrawn $000**	Total $000	Drawn $000	Undrawn $000
Overdraft facility	**–**	**–**	**–**	15,000	9,000	6,000

Fair Value of Financial Assets and Liabilities

The fair value of all financial instruments is not materially different from the book value.

28. Capital Commitments

Amounts contracted in relation to the Ukraine field development but not provided for in the financial statements at 31 December 2008 were $2,090,000 (2007: $nil). In addition, the Company has entered into five year contracts with Saipem SpA for the provision of two drilling rigs. The contracts for these rigs have a break clause after two years which, if exercised, result in a total minimum commitment through to end 2010 of $103,554,000 (2007: $nil). However, the Company has the legal right to subcontract these rigs which may partially or wholly mitigate any exposure.

29. Related Party Disclosures

Goods and services to the value of $nil (2007: $104,243) were paid for by the Group on behalf of African Minerals Limited (formerly Sierra Leone Diamond Company Limited). African Minerals Limited is a diamond exploration company in which Mr F Scolaro (former Non-Executive Director) was a Non-Executive Director for part of the previous year. No amount was owed to the Group at the end of the year (2007: $nil).

Key management personnel of the Group are considered to comprise only the Directors. Details of Directors' remuneration are disclosed in Note 6.

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
millimetres

km
kilometres

km^2
square kilometres

m^3/d
cubic metres per day

Mm^3
thousand cubic metres

MMcf/d
million cubic feet per day

bpd
barrels per day

boepd
barrels of oil equivalent per day

MMboe
million barrels of oil equivalent

$
United States Dollar

Designed and produced by **Emperor Design Consultants Ltd**
Telephone **+44 (0)20 7729 9090 www.emperordesign.co.uk**

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