Annual Report and Accounts 2009

Regal Petroleum plc

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

Highlights

Financial

- Revenues, at $19.9 million, are up 74% on the prior year and gross profit has increased 136%;
- Gas sales volumes are up 64% on 2008, contributing to a 120% rise in gas revenue over the previous year;
- $118.6 million in cash and no debt.

Operational

- Drilling performance improvement from previous drilling on the licences;
- Production has risen from below 500 boepd in the fourth quarter of 2008 to over 2,000 boepd by January 2010;
- Four new production wells were spud in Ukraine during 2009;
- Two million man-hours of staff and contractor time recorded without any Lost Time Incidents to date.

Realising Potential

CONTENTS

Our Business
02 Group at a Glance
05 Chairman's Statement
06 Chief Executive Officer's Statement
15 Chief Operating Officer's Review
23 Finance Review
26 Operating Environment, Principal Risks and Uncertainties

Our Governance
30 Board of Directors
32 Corporate Governance Statement
33 Directors' Report

Our Financials
37 Independent Auditors' Report
38 Consolidated Income Statement
38 Consolidated Statement of Comprehensive Income
38 Company Statement of Comprehensive Income
39 Consolidated Balance Sheet
40 Consolidated Statement of Changes in Equity
41 Consolidated Cash Flow Statement
42 Company Balance Sheet
43 Company Statement of Changes in Equity
44 Company Cash Flow Statement
45 Notes
IBC Advisors/Glossary

Our Business

Group at a Glance

Our Operations

UKRAINE

- 5 new generation wells spud to date
- Up to four times faster drilling to equivalent depth with new rigs
- More than two years and 2 million man-hours without a Lost Time Incident
- Gas production: 163,983 m^3/d
- Condensate production: 42.5 m^3/d
- 169 MMboe reserves
- Reserves review in progress
- Positive earnings outlook

ROMANIA

- 104.7 km of 2D seismic acquired
- Shallow gas exploration well planned for 2010

EGYPT

- Further technical evaluation of licence area
- Drilling of an additional well planned for 2010

UK HEAD OFFICE

ROMANIA

Exploration and Appraisal

- Barlad Block — 100% Regal owned and operated
- Suceava Block — 50% non-operated interest

UKRAINE

Production and Appraisal

- MEX-GOL and SV fields — 100% Regal owned and operated

EGYPT

Exploration and Appraisal

- East Ras Budran concession — 25% non-operated interest

FIND OUT MORE AT
www.regalpetroleum.co.uk

Our Business

Chairman's Statement

Keith Henry

A number of milestones achieved

I am pleased to introduce the 2009 Annual Report and Accounts. Despite a very difficult worldwide financial environment, the Company has continued to pursue its strategy of investment and growth through the application of modern technology, supported by its team of highly experienced industry professionals. Revenues, at $19.9 million are up 74% on the prior year, despite a lower average condensate price. Gross profit has increased 136% and the net loss after tax has been cut from $50.8 million in 2008 to $9.8 million in 2009. Although the quantum of this improvement in the Company's financial performance is relatively modest for now, it is clear that a number of major milestones were successfully achieved during 2009. Since the year end we have seen significant success with the testing of the SV-58 well which, if replicated through the planned 2010 programme, offers a positive earnings outlook. Technical challenges remain in accessing the deeper reservoirs and we intend to focus our investment programme on building production whilst evaluating the considerable resource upside in a cost effective manner. The first four of a series of new generation wells were spud on Regal's Ukrainian licences during the year, using two, modern, 2,000 hp top-drive rigs contracted from Saipem S.p.A.. The introduction of these new rigs has not only enabled us to substantially reduce the time historically taken to drill these wells in Ukraine, but also affords us the opportunity to appraise the deeper, potential resources. Our current strategy of focussing in the near term on developing the shallower B-Sands to increase our gas production bodes well in a market that is heavily dependent on imported gas and where the Ukrainian Government is keen to encourage the growth of domestic production.

Board Changes

I have pleasure in welcoming Dr Alastair Graham to the Board as a Non-Executive Director, following his appointment in January 2010. Alastair brings a wealth of oil and gas experience, predominantly from his time with BP where, prior to his retirement in 2009, he was leader of BP's Russia business unit and was BP's shareholder representative for the TNK-BP joint venture. He holds a PhD in Geology from the University of Edinburgh, an MBA from the University of Strathclyde and an MA in Natural Sciences from the University of Cambridge. Consequently, Alastair adds real depth of technical and regional knowledge to the Non-Executive team.

Also in January 2010, Lord Anthony St John of Bletso and Mr Antonio Mozetic stepped down as Non-Executive Directors of the Company due to other business and personal commitments. On behalf of the Board, I would like to sincerely thank both Anthony and Tony for their valued contributions and advice during their tenure and we wish them well in the future.

The Board now comprises three Executive and three Non-Executive Directors, whose details and experience are set out on pages 30 and 31.

Outlook

As detailed later in this Report, the considerable experience gained whilst drilling the new generation wells in Ukraine and developing the novel techniques to improve their perforation, has enabled us to re-evaluate our immediate strategy whereby the majority of our resources will be concentrated on developing the B-Sands. Two of the initial four wells have recently been brought into production and the two remaining wells are expected to be completed shortly.

During 2010 we plan to drill two additional wells in Ukraine, two in Romania and one in Egypt.

Although global financial markets are expected to remain challenging, the team at Regal have the skills and experience necessary to build on the operational progress recently achieved, and to continue to grow the Company in future years. The results achieved to date are thanks to the dedication, professionalism and commitment of our staff and contractors and also with the support of our shareholders. On behalf of the Board, I would like to offer my sincere appreciation to them all.

Our Business

Chief Executive Officer's Statement

David Greer OBE

Driving the Company Forward

Introduction

2009 was a year of sustained progress in Ukraine, most notably with the spudding of the first wells with the new top-drive drilling rigs. Work on the 3D sub-surface model was further refined following the completion of seismic acquisition in 2008 and with data from the new wells; governance procedures were strengthened further; and historic regulatory matters were finally brought to a close. The worldwide financial crisis and the resultant contraction in availability of investment capital threatened to derail Regal's development programme, but the support shown by shareholders in the $105 million (gross) capital raising through a secondary placing on 1 July 2009, coupled with the funds raised in the preceding year, has enabled the Company to maintain momentum and to continue to build upon the achievements of last year.

The application of new technology and the appointment of experienced professionals with a wealth of industry experience continue to drive the Company forward. During 2009, four new generation wells were spud in Ukraine and by January 2010 production had risen to 2,072 boepd following the hook-up of SV-58.

Health, Safety, Environment and Security

Regal is committed to maintaining the highest standards of Health, Safety, Environment and Security (HSES) and the effective management of these areas is an intrinsic element of the overall business ethos. Through strict enforcement of the Company's HSES Management System, together with regular management meetings, training and the appointment of dedicated safety professionals, the Company strives to ensure that the impact of its business activities on its staff, contractors and the environment is as low as is reasonably practicable. Regal reports safety and environmental performance in accordance with the Association of Oil and Gas Producers (OGP) guidelines.

The number of safe man-hours worked by staff and contractors in 2009 totalled 900,549 man-hours with no Lost Time Incidents reported during the year. This brought the cumulative total without a Lost Time Incident to over 1.6 million hours by 31 December 2009 and since this date, the total has exceeded 2.0 million hours over two years without a Lost Time Incident. No environmental incidents were recorded during the year.

Our Business

Chief Executive Officer's Statement continued

Technological Achievements

RESERVOIR TECHNOLOGY

- Acquired, processed and interpreted 3D seismic imagery over entire licensed area
- Acquired advanced petrophysical analysis and geological modelling software for detailed reservoir characterisation
- Constructed static reservoir model based on 24 wellbores integrated with the seismic imagery as a basis for volumetric estimation
- Consequent increase in internal view of initial hydrocarbons in place
- Identified previously undeveloped limestone reservoir (B24)

COMPLETION TECHNOLOGY

- Custom designed and built equipment for rig and coiled tubing to enable deployment of high pressure hydraulic abrasive jet perforation to ensure reservoir access
- Wellbore inflow performance enhancement through deployment of "minifrac" stimulation of the rock face
- Completion designs allowing for zonal isolation and selective production
- Broadened completion strategy to include slotted liners set below 5,400 metres depth

PRODUCTION TECHNOLOGY

- Launched wellhead compression project to increase ultimate recovery
- Launched liquid vapour recovery project to monetise waste gas
- Identified and implemented production enhancement project portfolio on existing wells

KEY FACTS AND FIGURES

$105m of new capital raised

Year end cash balance **$118.6m**

Revenues up **74%** on prior year

Capital expenditure of **$94.9m**

Gas: realised price **$244 per Mm³**

Chief Executive Officer's Statement continued

UKRAINIAN Markets

UKRAINE OVERVIEW

- Long-term production licence
- Significant existing reserves with clear, sizeable upside potential
- Experience & technology to deliver; seasoned industry professionals, quality Ukrainian team
- Strategic location — approximately 80% of Russian gas exported to the European Union crosses Ukraine
- Encouraging business environment:
  - Good fiscal environment encouraging deep gas exploitation
  - Revenues indirectly linked to $
  - Structured to repatriate profits

ATTRACTIVE GAS PRICING

European market very different to North America:

- Higher prices — oil price linked
- Demand rising
  - Eastern Europe joined EU
  - North Sea production decline
- Nearly 80% of Ukrainian demand satisfied by imported gas from Russia; domestic production encouraged

2009 — A Year in Review

Ukraine continues to be, by far, the main focus of operational activity and investment. The thrust of Regal's strategy is to apply modern technology, supported by highly experienced industry professionals, in a region that has not, hitherto, seen such widespread application. The first of a planned series of new-generation wells, was spud in the first quarter of 2009. Two new, top-drive, 2,000 hp drilling rigs were contracted from Saipem S.p.A. (ENI Group) and four wells were spud during the year — MEX-106, SV-58, SV-61 and SV-66. Drilling performance has out-stripped all previous drilling activity on the licences (up to four times faster for equivalent depth) and it is expected that as a result of the learning acquired, new wells should be drilled faster resulting in future cost reductions. Furthermore, the new wells have been able to penetrate deeper owing to the capacity of the new rigs and the Company has started to gain data on possible upside from the Tournasian and Devonian age potential reservoirs.

There has inevitably been some degree of initial teething problems and challenges, but these are considered to be learning curve frustrations rather than fundamental problems, and are to be expected in the first few wells drilled with such new technology. These are the initial wells in a planned long term programme that is expected to continue into and beyond the next decade. However, given the quality and experience of the operations team on the ground, supported by senior professionals in London, solutions have been found, most notably in the jet perforating technique which was first applied to SV-58. Following an intermittent and poor flow from this well when first perforated using local, conventional guns, a liquidised, sand-based, jet-perforating process successfully trialled on two thin B-Sands, was subsequently rolled out over the remaining target reservoirs. This was further enhanced with Stimtube fracturing (again, a first in the Ukraine) resulting in significant improvements in production rates. The field is relatively deep and the stratigraphic nature of the reservoirs complex, but the structure is large and geographically extensive. The challenge now is to unlock the upside potential that is believed to exist in both the B and T-Sands, with each new well providing further refinement of our geological understanding. However, the plan is to modify our forward programme in the short term to optimise production.

In Romania, work continues on both of Regal's licence interests. On Barlad, which is 100% Regal owned and operated, a further 104.7 km of 2D seismic was acquired and is being interpreted in advance of a further shallow gas exploration well planned for later in 2010. This will discharge the remaining work commitment for the licence. However, additional studies and field work are being undertaken to determine whether deeper prospects may reside within possible shale deposits of the Silurian Period. In the Suceava concession, which is 50% owned by Regal and operated by Aurelian Oil & Gas plc, 2D seismic data acquired during the year has resulted in the identification of a gas prospect located 2.5 km to the east of the Vicsani discovery in the neighbouring Brodina concession, which is also operated by Aurelian Oil & Gas plc. It is intended to drill a well to evaluate this gas prospect later in 2010.

In the East Ras Budran licence in Egypt, in which Regal holds a 25% interest and is operated by Apache, a work-over on well ERB-A-1X to replace an electrical submersible pump was undertaken. However, technical challenges encountered by Apache resulted in operations being suspended. The 2010 plan for Egypt includes further technical evaluation of the licence and the drilling of an additional well.

Ukraine Market and Regal's Approach to Unlocking Value

Ukraine is very well positioned geographically, bridging the gas supplies of Russia and the markets of Europe. With the European Union ("EU") on Ukraine's western border and Russia on the east, approximately 80% of Russian gas exports to the EU travel via pipeline across the country, and gas infrastructure is extensive. Regal is confident about the domestic demand for its gas as the expected production from the MEX-GOL and SV licences rises. Consumption in Ukraine over the last 15 years or so has been reasonably static with nearly 80% of demand being satisfied by imported gas. Regal's predicted increase in

Our Business

Chief Executive Officer's Statement continued

production as each successful well is brought into production could, in due course, be material in terms of domestic supply, but will still be small in comparison with imported volumes, which heavily influence domestic prices. Importantly, Ukrainian fiscal terms actively encourage exploitation of domestic reserves and, particularly, through the royalty regime, the recovery of deep gas and condensate.

Production has risen from below 500 boepd in the fourth quarter of 2008 to over 2,000 boepd by January 2010. This represents the first contributions from the significant drilling investment which began in earnest in 2009. The overall philosophy of the Company is to use modern technology, much of which has not been applied in Ukraine previously, to drill wells both faster and deeper, thereby increasing and accelerating production and, consequently, revenues. This approach, if successful, should enhance the economic value of anticipated future cash flows and is expected to result in earlier enhanced revenues than from conventional, local drilling practice. In terms of investment, the bulk of the cost lies in the capital expenditure for the drilling and completion of these new wells. Conversely, the surface infrastructure and variable operating costs are relatively low, since the gas and condensate require little surface treatment and the sales of gas are made from the licence boundary, free of additional transportation tariffs or costs.

The political situation in Ukraine has continued to attract market attention in the run-up to the Presidential elections which concluded with the former Prime Minister, Mr Viktor Yanukovych, taking office as President in February 2010 and a new governing coalition being formed. Regal has operated with the support of both Regional and National Government for a number of years, including the period when Mr Yanukovych held the position of Prime Minister prior to the "Orange Revolution", and accordingly the Company remains confident in the business environment and is committed to supporting the development of Ukraine and to maintaining a strong relationship with the Government at all levels.

Following the formation of the new Government, there are already indications of an improvement in relations between Ukraine and Russia. This is reflected in the recent dialogue between their respective Governments which has resulted in a review of the current imported gas price from Russia and a fall in the imported gas price from Russia to Ukraine for the remainder of 2010. As a consequence, the weighted average anticipated price for 2010 is likely to be similar or slightly higher than the average price for 2009 because the year to date price for 2010 has been considerably higher than the 2009 average price. It should be noted that the imported price is distinct from the domestic internal prices that are capped by the Ukrainian authorities. As at the time of preparing this report, no amendments to the price cap and correspondingly Regal's realised price had been made. The realised gas price for Regal in 2009 was higher than the imported price.

Future Strategy

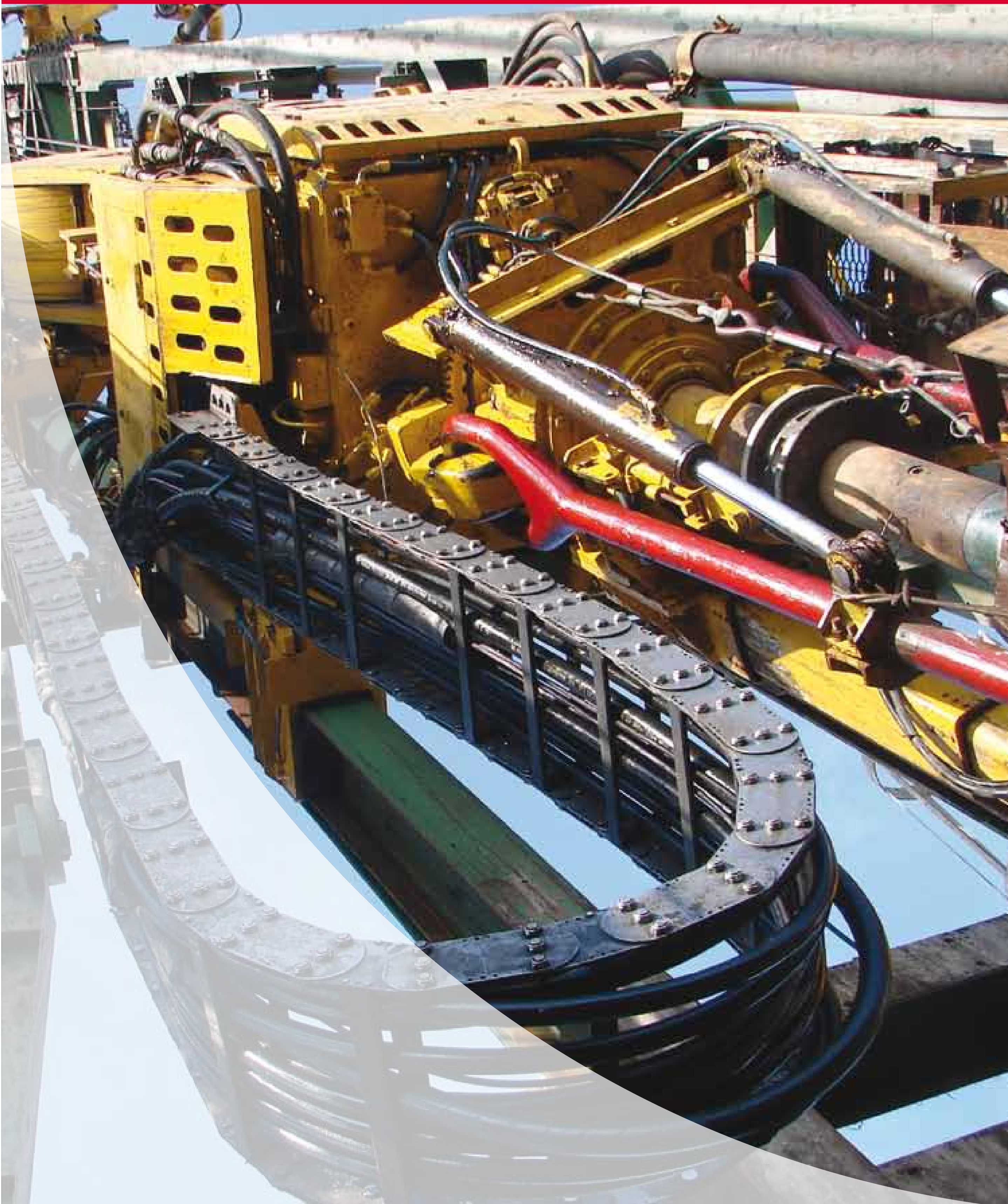
During 2009, Regal continued to pursue the strategy that was established during the previous year in the development of its Ukrainian assets. Despite the worldwide recession and resultant stemming of liquidity in global financial markets that has tested many companies, Regal has continued to follow its initial objectives to try to unlock the true value of its Ukrainian assets. This foundation should provide a stable platform for significant future growth in production and increased revenues, with such increasing production giving a positive earnings outlook. The Company continues to have no debt and sufficient cash and materials to maintain operating activity into the foreseeable future.

However, the experience gained in the drilling of the first four new generation wells, and particularly in drilling to the deeper sections in the wells on the SV field where drilling conditions have proven to be challenging at depth, has caused the Company to re-evaluate and refine its objectives for the development of the Ukrainian field. In this regard, the Company has determined that its immediate primary focus should be on securing production from the B-Sands reservoirs in both the MEX-GOL and SV fields. Appraisal of the T and D-Sands in the MEX-GOL field will be carried out on the MEX-106 well, where work-over operations are planned to complete the perforation of the B, T and D-Sands using advanced perforation techniques and to replace the well completion. It is considered that by focussing on increasing production from the B-Sands and the resultant operational revenue in the near term, the Company will be able to establish sustainable business growth by conserving and ultimately building its cash position and retaining maximum optionality, whilst continuing to evaluate the most effective method of appraising the potential upside of the deeper T and D-Sands in the future.

Accordingly, the Company has determined to complete the SV-66 well as a B-Sands production well, whilst deferring the appraisal of the T and D-Sands in this and subsequent new wells to allow further work to be undertaken in the assessment of the most effective method of appraising the deeper T and D-Sands.

I would like to thank our shareholders for their continued support, particularly during such a turbulent period. Regal is also indebted to the commitment and hard work of all of its staff and contractors who have worked tirelessly and professionally to understand the sub-surface and thereby begin to realise the true potential of our operated assets in Ukraine and Romania.

"The application of new technology and the appointment of experienced professionals with a wealth of industry experience continue to drive the Company forward. During 2009, four new generation wells were spud in Ukraine and by January 2010 production had risen to 2,072 boepd following the hook-up of SV-58."



Our Business

Chief Operating Officer's Review

Harry Verkuil

Speed and efficiency improvements

Operationally, 2009 has been a year of high activity. In total, four wells were spud, two of which are now on production. Despite the challenges encountered in drilling these first wells, we have achieved very considerable speed and efficiency improvements. We can now also say with some confidence that we have a better understanding of the reservoirs and their behaviour. Key contributors to this have been the application of different techniques and the use of modern materials and equipment specifically imported into the country. Uppermost is the operational team on the ground, with their experience and resourcefulness. Production started to rise in autumn 2009 and continued through into the first quarter of 2010, with average production in 2009 showing a 64% rise on that of 2008. No Lost Time Incidents were incurred and a total of 900,549 man-hours were recorded for the year. Over two million man-hours of staff and contractor time without a Lost Time Incident have now been recorded to date.

Regal's Assets

Regal's assets are located in three countries: Ukraine, Romania and Egypt.

The primary asset is a large gas and condensate field extending over two production licences (100% Regal owned and operated) in north eastern Ukraine. The reserves were independently audited by Ryder Scott in 2005 who provided an estimate for proven and probable ("2P") reserves of 169 MMboe.

Regal also owns two large exploration licences in Romania — the Barlad and Suceava Blocks. These are held 100% and 50%, respectively, by Regal. Gas has been discovered on both blocks following exploration drilling.

In addition, the Company owns a 25% non-operated interest in the East Ras Budran concession in Egypt which is an onshore block operated by Apache.

"The first contribution from the new generation wells commenced in October 2009 from MEX-106, followed by SV-58 with initial production from this well commencing in January 2010. The combination of a rig equipped with high performance equipment and specifically designed bits has increased the rate of penetration."

Our Business

Chief Operating Officer's Review continued

Project Areas

UKRAINIAN PROGRAMME

- Contracted two new top-drive 2,000 hp Lewco rigs
- Four wells spud during 2009; MEX-106, SV-58, SV-61 and SV-66
- Over two million man-hours of staff and contractors time without a Lost Time Incident have now been recorded to date
- Drilling performance has out-stripped all previous drilling activity on the licences
- Subsurface model of the field completed by the end of 2009

Project Area:
Ukraine

Asset Overview

Regal Petroleum Corporation Limited (a wholly owned subsidiary in the Regal Group) holds a 100% working interest and is the operator of the Mekhediviska-Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") fields that extend over a combined area of 269 km^2, approximately 200 km east of Kiev. The two licences are adjacent and the interests are operated and managed as one field.

The field is located, geologically, towards the middle of the Dnieper-Donets sedimentary basin which extends across most of north-east Ukraine. The vast majority of Ukrainian gas and condensate production lies within this basin. The reservoir comprises a series of gently dipping Carboniferous sandstones of Visean Age ("B-Sands") interbedded with shales that form stratigraphic traps at around 4,700 metres below the surface, with a gross thickness between 800 metres and 1,000 metres. Analysis suggests that these deposits range from fluvial to deltaic in origin. Below these reservoirs is a thick sequence of shale above deeper, similar, sandstones which are encountered at a depth of around 5,800 metres. These are of Tournasian Age ("T-Sands") and also sandstones from the older Devonian Period ("D-Sands").

The field was originally discovered in the 1960s during the Soviet era, with wells being drilled sporadically over the years since then by State companies. Only limited investment had been made in developing the asset further with equally limited, consequential, production. 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 work-overs on Soviet era wells. The Ukrainian Government declared the fields commercial in December 2003 and 20 year production licences (MEX-GOL and SV) were awarded to Regal in July 2004.

Over 20 wells had been drilled into the B-Sands prior to 2004, resulting in the Ryder Scott 2P reserves estimate in 2005 of 169 MMboe. However, only five wells had managed to penetrate the deeper T-Sands sequence, and none of the rigs used at the time had the capacity to drill all the way through this T-Sands sequence and into the deeper D-Sands. The five wells provided, at the time, a tantalising glimpse of potential upside by the discovery of gas where, in some wells, individual T-Sands were tested and flowed at between 20 and 80 Mm^3/d. It was not until the acquisition of 3D seismic data and its interpretation in 2008 that the huge, lateral extent of the T-Sands and underlying D-Sands became apparent. The new generation wells in 2009 have targeted production from the B-Sands reservoirs, but have also been drilled with the intention of properly appraising these deeper T and D-Sands deposits for the first time. Regal believes that there is significant upside potential from these deeper sands and the

Chief Operating Officer's Review continued

Ukraine continued

Company aims to continue to appraise and, hopefully, produce from such deeper sands in the future.

Production

2009 commenced with a significant production increase from MEX-102, which had been recently worked over and brought back on line in late 2008. The first contribution from the new-generation wells commenced in October 2009 from MEX-106, followed by SV-58 with initial production from this well commencing in January 2010. At present, the main contribution from both wells is from the B-Sands sequence. In MEX-106, an intervention is required to remove an obstruction from the production tubing that is preventing access to the lower T and D-Sand sections of the well and in SV-58 high pressures in the deeper sections of the well have restricted access to those sections.

The Company's average production over the 12 month period to 31 December 2009 was 163,982 m^3/d (5.79 MMcf/d) of gas and 42.5 m^3/d of condensate, which equates to a combined total oil equivalent of 1,232 boepd, which is a 64% increase on the previous year. The monthly average production with both MEX-106 and SV-58 on line increased to 1,927 boepd in January 2010. This growth is significant as it represents a real turning point from below 500 boepd in late 2008, reflecting the tangible effect of investment starting to produce results.

Field Development

Regal contracted two new top-drive 2,000 hp Lewco rigs from Saipem S.p.A. in 2008 on a long term basis. These rigs arrived in the Ukraine, on schedule, to spud the first of the new-generation deep gas and condensate production wells in early 2009. The first rig spudded MEX-106 in the western side of the field in January 2009 and after reaching target depth (TD) of 6,020 metres in July 2009, the rig was relocated to the eastern side of the field to spud SV-61 in September 2009. The second rig spudded SV-58 in February 2009 and, after reaching TD at 6,309 metres in September 2009, was moved to the SV-66 location nearby, which was spud in November 2009. Consequently, four new production wells were spud on the Company's Ukrainian licences during 2009.

Drilling performance has been striking. Previous local rigs had typically taken between a year and two years to reach depths of 5,000 to 5,500 metres on Regal's MEX-GOL and SV licences. MEX-106 took little more than 120 days to reach comparable depth and there has been an improvement in drilling performance with each successive well. The combination of a rig equipped with high performance equipment including drilling motors, turbines and purposely selected and specifically designed bits, such as diamond impregnated and polycrystalline diamond compact (PDC) bits, has increased the rate of penetration, dramatically reduced the number of bits required and increased the bit on bottom time and bit life. The new rigs also have the capacity to drill deeper, with MEX-106 drilled to 6,020 metres, inside seven months and the successive wells even faster. SV-58 reached 6,309 metres and the fourth well, SV-66, reached 5,000 metres in less than 90 days (before drilling deeper), which is more than four times faster than with the previous local rigs. Lessons learned from each successive well should enable future wells to be drilled faster resulting in lower drilling time and consequent cost reduction. The main objective of MEX-106 was to determine the productivity of the B-Sands target and to bring this into production. Wireline logs identified 33 metres of net reservoir in the B-Sands sequence between 4,800 and 5,250 metres depth. In addition to this, a further 11 metres of net reservoir was identified in the secondary, T-Sand objective. At 5,830 metres the well encountered, for the first time on this field, potential Devonian reservoirs and 27 metres of net reservoir was logged between this depth and the bottom of the well. However, whilst perforating to flow the well in the deeper section one of the perforation guns became lodged in the production tubing, thereby restricting

access to the lower part of the well. Only the upper reservoirs in MEX-106, therefore, were initially brought on stream. Flow from these reservoirs had built up to approximately 75,000 m^3/day (2.6 MMcf/d) of gas and to 75 boepd of condensate towards the end of the year. It is the intention to remove the obstruction through work-over activities in Q2 2010.

The second well, SV-58, also encountered potential reservoirs in the B, T and D-Sands, with estimated net pay of 60 metres from the B-Sands to the T-3 Sands. The available logs from the T-4 Sands to the D-Sands show an estimated pay thickness of 65 metres. In addition to similar sands to those encountered in the MEX-106 well, a 120 metre thick limestone was also discovered towards the lower part of the B-Sands sequence. This well proved to be a real challenge as several over-pressured gas-kicks had to be controlled whilst drilling, with the first encountered upon entering the limestone. The mud-weight was loaded to a specific gravity of 1.95 in order to control the well. After this well section was cased, it was decided to defer bringing the lower part of the well into production pending further evaluation of the possible expected high pressures. Consequently, only the B-Sands sequence was selectively perforated. The well test indicated a low connectivity with the formation and a higher than expected ratio of gas to condensate. To increase the connectivity and productivity of the well, a jet perforating "trial" was undertaken whereby perforations were made using an abrasive jet slurry of water and sand. This technique resulted in a significant increase in productivity in the test zone. The well was taken on production while preparing for a full-scale jet perforating intervention in combination with the use of other advanced perforation techniques to further enhance production.

The third well, SV-61, was spudded in September 2009 and drilled to a total depth of 5,969 metres, which was reached on 12 January 2010. A total of 22 metres of net pay was logged over the B-Sands (B-20 to the top of the B-23). A slotted liner was run to case the 6" hole section. The jet perforating trial was extended to SV-61 where a pipe conveyed jet perforating programme was executed to perforate the 7" casing using the drilling rig equipment.

The fourth well, SV-66, was spudded on 23 November 2009 and drilled to a depth of 5,894 metres and the fifth well, MEX 120, was spudded on 12 April 2010.

The subsurface model of the field was completed by the end of 2009. The model is being continuously updated with the data obtained from the newly drilled wells to refine the model and to increase its accuracy.

Our Business

Chief Operating Officer's Review continued

Romania

The Company has continued to explore its Romanian assets, the Barlad block (Regal 100% and operator) and the Suceava block (Regal 50% non-operated).

In the Barlad block, 104.7 km of 2D seismic was acquired between November 2009 and early January 2010 with an interruption due to the severe winter weather. The remaining licence commitment on this block at year end was the drilling of an additional well, and this well is scheduled for spud in Q3 2010. A nine month extension on this drilling commitment was granted to allow the evaluation of the new seismic data so as to more accurately position this exploration well. Towards the end of the year, work commenced on assessing the shale gas potential of the block. The initial reservoir target within the concession area is the shallower Palaeozoic Formation which has six potential structural leads that can also be seen in the deeper Silurian on 2D seismic data. Additional confirmation of the presence of the Silurian Formation has been confirmed by the Regal SE1 well in the adjacent Suceava block, where the formation was intercepted at a depth of 1,950 metres. Based on the information available all the necessary requirements for a successful shale gas play can be found within the Barlad block.

In the Suceava block, the 2D seismic data acquired during the year has enabled the identification of a modest sized gas prospect 2.5 km to the east of the Vicsani discovery in the neighbouring Brodina Concession, also operated by Aurelian Oil & Gas plc. It is intended to drill a shallow gas well to meet the remaining work programme obligations during 2010. Work has established that the Vicsani field in the adjacent Brodina Concession extends into the Suceava block and further work to assess the relative contribution of reserves from the Suceava and Brodina concessions respectively is currently underway. It is anticipated that a net share of between 7.5% and 15% of the field's production will be assigned to Regal on settlement of a proportional contribution to the historic cost associated with this field.

Egypt

The Company holds a 25% non-operated interest in the East Ras Budran concession in the Gulf of Suez, Egypt through a joint venture with Apache as operator. Exploration and appraisal work has continued at the concession although the overall level of activity has been relatively low this year. The main focus has been the identification of new prospects. Data was acquired to develop a digital elevation model (DEM) of an area which was less accessible to seismic acquisition. This was followed by a ground control point (GCP) survey. The geo-rectification, interpretation and field mapping was ongoing at the year end. In addition, a survey was undertaken on the fractured Eocene carbonates in the East Ras Budran area to further understand reservoir behaviour.

A work-over on the ERB-A-1X well, drilled in 2007, was required to replace a failed Electric Submersible Pump (ESP). Owing to difficulties experienced pulling the ESP, operations were suspended.

The 2010 plan for Egypt includes the further development of the field on the back of the discovery in the ERB-A-1X well.

Direct Drive

Our Business

Finance Review

Robert Wilde

Towards positive earnings

Overview

In last year's Annual Report, the emphasis of the Finance Review was on the strength of the balance sheet; being focused both on cash and development capital expenditure. Through the support of Regal's shareholders, $105 million (gross) of new capital was raised by the secondary placing of 104,000,000 new shares at 61 pence per share on 1 July 2009. As at 31 December 2009, Regal held $118.6 million in cash, $20.1 million in stock and had no debt. Whilst the balance sheet strength remains the major aspect of the financial statements for 2009, this year's results begin to reveal a real shift in the Company's fortunes as the investment to date starts to make a positive impact on the income statement. Revenues are up 74% on the prior year and gross profit has increased 136%. The net loss after tax has been cut from $50.8 million in 2008 to $9.8 million in 2009. Whilst these numbers are modest, when compared to future expectations, the change is significant. Given the further increase in production following the year end, 2010 appears to be gaining momentum towards a positive earnings outlook.

Operational Performance

At 31 December 2009, Regal held non-current assets of $182.2 million. This had risen from $87.8 million the previous year end since, during 2009, $94.9 million was incurred on capital expenditure, of which 98% related to development expenditure in Ukraine. At 31 December 2009, the Company held $20.1 million in stock, being mostly long-lead items held for future drilling, such as casing, drill bits and christmas trees. The receivables include $16.8 million of purchase tax, which is recoverable against sales tax on future sales revenue.

The majority of Regal's turnover is derived from gas sales from its Ukrainian gas and condensate field. The Ukrainian Government sets the gas price cap, typically on an annual basis, for gas sold to industrial and domestic retail customers. Such gas prices are driven by the imported, US Dollar-based, gas price from Russia, since the majority of Ukrainian consumption is satisfied by Russian imports. Approximately 20% of Ukrainian demand is met from domestic production with the balance being supplied by Gazprom. Since the fall of communism in 1992, Ukraine has enjoyed a discounted gas price from Russia rather than the European market price. In recent years, this discounted price has been converging with the European market price which, when coupled with higher oil prices in recent years, has driven a higher market price for gas and has led to a dramatic year on year increase in Ukrainian gas prices. This trend continued into 2009, where Regal realised an average price for its gas equivalent to $244 per Mm^3, being a 31% rise on the previous year. Furthermore, gas sales volumes are up 64% on 2008. The combined effect is a 120% rise in gas revenue over the previous year. Condensate prices are achieved at regular

"Revenues are up 74% on the prior year and gross profit has increased 136%. This year's results begin to reveal a real shift in the Company's fortunes as the investment to date starts to make a positive impact on the income statement."

Our Business

Finance Review continued

auctions and are, therefore, effectively sold at a spot price to a number of customers. This price is driven by the prevailing oil price and fluctuates, depending on demand and season. Occasionally, such as during the late summer harvest period, condensate prices can exceed oil prices. The average price realised for 2009 was $57/bbl; being a 32% fall on 2008, following the collapse in oil prices that had seen a peak of over $140/bbl in the summer of 2008. Mitigating this, condensate sales volumes rose 45% and, as such, overall condensate revenue rose 9%.

Cost of sales includes Government royalties. The Ukrainian Government incentivises the exploitation of deeper resources by reducing the royalty rate on production that is sourced from below 5,000 metres. The income statement includes a lower combined royalty rate than in the previous year for this reason and also because of the lower price realised on the condensate sales reflecting the lower oil prices generally. Consequently, although sales have risen by 74%, cost of sales has risen by only 10%, thereby delivering a gross profit of $13.6 million; being a 136% increase on 2008. Variable operating costs remain relatively low. The paradox of the Company's Ukrainian field is that the relatively high capital cost of drilling deep wells is, in the overall field economics, somewhat mitigated by the low production costs and favourable fiscal regime.

The income statement includes other administrative expenses of $15.1 million, compared to $18.0 million in 2008. This 16% decrease was largely achieved as a result of austere cost-cutting measures, particularly with regard to staff and related costs, legal fees and consultancy arrangements. The expenses also include a charge of £0.6 million ($1 million) arising from the AIM Disciplinary Committee's decision in final resolution of the regulatory matters arising during the period 2003–05. These events predate the appointment of the current Board, who are pleased to have finally divorced themselves from this historic episode.

The share-based charge in the income statement of $7.6 million is a non-cash item as calculated for the period in accordance with the provisions of IFRS 2 and relates to share options issued to Directors and staff. The total number of shares under option at the end of the year was 7,950,229.

The income tax expense of $2.9 million includes a net deferred tax charge of $2.8 million reflecting the accelerated capital allowances on expenditure in Ukraine.

Regal manages its treasury function by forecasting short and longer term cash flows, by currency. These are then used to determine estimated functional need, by currency denomination, and deposits are held accordingly. Such deposits are also placed on varying term deposits so as to optimise interest income. Investment revenue of $0.9 million for 2009, being derived from funds held on deposit, is significantly lower than for 2008 ($5.5 million). Whilst this is attributable, in part, to lower average cash balances held, it is more notably influenced by the markedly reduced interest margins available to depositors as a result of the recent financial crisis. The foreign exchange gain of $1.5 million contrasts sharply with last year's loss of $28.9 million, although the majority of the latter was unrealised and reflected the extreme currency movements towards the end of 2008.

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. Under the new Long Term Incentive Programme (LTIP), options previously included under the 2004 share option plan have been modified and new options granted subject to the satisfactory achievement of a comprehensive set of performance criteria over target vesting periods which have been established. The performance criteria encompasses, *inter alia*, certain financial, operational/drilling, corporate health and safety targets and completion of a new independent reserves report. In this manner, the interests of the Company's management and staff are aligned to shareholder interests.

"This trend continued into 2009, where Regal realised an average price for its gas equivalent to $244 per Mm³, being a 31% rise on the previous year. Furthermore, gas sales volumes are up 64% on 2008. The combined effect is a 120% rise in gas revenue over the previous year."

Operating Environment, Principal Risks and Uncertainties

The Company has a risk evaluation methodology in place to assist in the review of the risks across all material aspects of its business. This methodology highlights technical, operational, external and fiduciary risks and assesses the level of risk and potential consequences. It is presented to the Board and Audit Committee on a quarterly basis for review, to bring to their attention potential concerns and, where possible, suggest mitigating action. Key risks 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 economies in these regions have all been subject to recessionary pressures during the period, with the global economy experiencing continued difficulties during 2009. Although the financial markets have settled somewhat from the turmoil of late 2008, liquidity in the banking and investment arenas remains tighter than prior to 2008. If these pressures continue, worsen, abate or 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 the Ukraine, Romania and Egypt

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

The political situation in Ukraine has continued to attract market attention in the run-up to the Presidential elections which concluded with the former Prime Minister, Mr Viktor Yanukovych, taking office as President in February 2010 and a new governing coalition being formed. Whilst Regal enjoyed good relations with the Government when Mr Yanukovych was formerly the Prime Minister, as with any change in Government there are always short-term uncertainties as new policies and direction take effect.

The Ukrainian Government is keen to develop the country's domestic production of hydrocarbons since Ukraine imports the majority of its gas needs from Russia. Whilst this should put 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 similar 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.

Regal Petroleum

Operating Environment, Principal Risks and Uncertainties continued

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, July 2008 and July 2009 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.

As the Company moves forward with an anticipated rise in revenues it becomes more exposed to volatility in the Hryvnia since revenues are received in this currency. Currently, the currency does not enjoy the range of benefits of currency hedging instruments that are available in more developed economies.

Oil and gas 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 and political influence. A prolonged period of low oil or gas 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 the 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 $242/Mm^3$ from $187/Mm^3$ in 2008. However, recent political pressures may to some degree mitigate the size of anticipated future rises, particularly in the short term.

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.

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. The experience gained from the drilling so far highlights the increasing risk profile as Regal targets the appraisal of the deeper potential hydrocarbons and, consequently, the accessibility of the T-Sands upside.

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 whether these or any other potential drilling locations will be able to produce gas, oil or condensate. In addition, drilling activities are subject to many risks, including the risk that commercially productive reservoirs will not be discovered. Drilling for hydrocarbons can be unprofitable, not only from dry holes, but from productive wells that do not produce sufficiently to be economic. In addition, drilling and production operations 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 are 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 2009, the Group currently holds sufficient cash for the anticipated medium term needs of the business. Whilst much of future capital need is expected to be increasingly derived from operational cash generated from production from the wells to be drilled, there is a risk that insufficient operational cash is generated, or that additional funding, should the need arise, cannot be secured.

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 is 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.

Our Governance

Board of Directors

1 Keith Henry
Chairman

Keith has a wealth of experience gained over 35 years in development, construction and management of projects in the oil & gas and energy industries. He was Chief Executive of National Power, Brown & Root and Kvaerner Engineering and Construction. Keith also held the roles of Non-Executive Chairman at Burren Energy and of Non-Executive Director at First Calgary Petroleums. He was deputy Chairman of Petroleum Geo-Services ASA from 2003 and led the demerger as Chairman of Petrojarl ASA in 2006. Keith has also been Non-Executive Director of South East Water and Enterprise Oil. He is currently Chairman of Helius Enery, and the senior Director of Sterling Energy. Keith is a Fellow of the Royal Academy of Engineering and a Chartered Civil Engineer with a BSc from London University and an MSc from the University of Birmingham.

2 David Greer OBE
Chief Executive Officer

David's oil and gas career spans over 30 years, almost entirely with Shell International Exploration and Production, prior to joining Regal in 2007. He has been the keystone to Regal's recent turn-around, having personally recruited many former business colleagues or drawn on his vast network of relationships within the industry. David has held a wide variety of engineering, commercial, production and senior executive positions in Shell's operations in the United Kingdom, the Netherlands, Norway, Canada, Oman, Argentina, the Philippines and, more recently, as deputy CEO and project Director of the Sakhalin 2 project in Russia. He read Civil and Structural Engineering at the University of Edinburgh and is a Fellow of the Institution of Mechanical Engineers. David was awarded his OBE in the 2003 New Year honours list.

3 Robert Wilde
Finance Director

Robert has 25 years of extensive experience in the energy industry, having worked in both upstream oil and gas and in downstream power generation. His career with Phillips Petroleum, Ranger Oil, Powergen, RWE and Baltic Oil Terminals has given him in-depth exposure to onshore and offshore exploration and production, M&A, IPO, financial management and structured finance activities in the North Sea, Portugal, Germany, Italy, Russia and Eastern Europe. Robert read Geology & Geophysics at the Royal School of Mines, Imperial College, London and qualified as a Chartered Accountant with Ernst & Young, London.

4 Harry Verkuil

Chief Operating Officer

Harry's 25 year career with Shell International Exploration and Production exposed him to a wide variety of engineering, operational and management roles in the Netherlands, Brunei, United Kingdom, Pakistan, India and, more recently, Saudi Arabia where he held the position of acting operations manager with South Rub Al Khali Company Limited. Harry read Mechanical Engineering at H.T.S. Amsterdam and is a Chartered Engineer.

5 Adrian Coates

Non-Executive Director

Adrian joined the Board in July 2008 following retirement from HSBC Bank where, for 10 years, he held the role of Global Sector Head; Resources and Energy Group; Global Banking and Markets Division. He has wide investment banking experience, having held senior roles in UBS, Warrior International and Credit Suisse First Boston. He specialised in the natural resources sector and his City experience is extensive, having advised on many substantial corporate transactions. Adrian also serves as a Non-Executive Director in Kazakhgold Group. He holds an MA (Econ) from Cambridge University and an MSc (MBA) from the London Business School.

6 Dr Alastair Graham

Non-Executive Director

Alastair has over 30 years experience in the oil and gas industry having held a number of senior management roles with BP, including UK Business Development Manager, Upstream Mergers and Acquisitions Manager, V-P of OAO Sidanco in Russia, leader of BP's Southern North Sea gas production business, V-P of BP Exploration Alaska and, most recently, leader of BP's Russia business unit and its shareholder representative for the TNK-BP joint venture. Since retirement from BP in March 2009, Dr Graham has provided consultant advisory services in the oil and gas sector. He read Natural Sciences at Cambridge University; holds a PhD in Geology from the University of Edinburgh and an MBA from the University of Strathclyde.

Our Governance

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 two 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 hold options in respect of 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 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), Adrian Coates and Alastair Graham. Lord St John of Bletso and Antonio Mozetic resigned from this committee on 14 January 2010 in conjunction with their resignation as Non-Executive Directors of the Company.

Audit Committee

The Audit Committee, comprising solely 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 Chief Executive Officer, the Finance Director and a representative of the Auditors.

The Audit Committee presently comprises: Adrian Coates (chairman), Keith Henry and Alastair Graham. Lord St John of Bletso and Antonio Mozetic resigned from this committee on 14 January 2010 in conjunction with their resignation from the Company.

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 2009 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 eighth 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 2009.

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 13 to the financial statements.

Proposed Dividend

The Directors do not recommend the payment of a dividend (2008: $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 40 for the Group and 28 for the Company (2008: 28 for Group and Company).

Business Review

The Company is required by the Companies Act 2006 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 Review and the Finance Review on pages 5 to 25.

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 22. 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 the employee Long Term Incentive Plan and the Share Option Scheme are set out in Note 22.

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 Act 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 32.

Under its Articles of Association, the Company has authority to issue 600,000,000 (2008: 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 6 to 13. The financial position of the Group, its cash flows and liquidity position are described in the Finance Review on pages 23 to 25. In addition, note 26 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.

Although the Company has a reasonable level of funds held in cash and carries no debt at the end of the year, it should be recognised that, in addition to the risks identified under the section titled Operating Environment, Principal Risks and Uncertainties, the Company faces further risk and uncertainty with regard to the timing and volumes of production from future wells. Whilst it is the Company's intention to fund the majority of the planned capital expenditure for the development of its gas field in Ukraine from future operational cash over the field life, there is uncertainty over the precise timing and quantum of this operational cash. This has been highlighted on the first wells, where challenges have been met whilst accessing the deeper horizons.

Consequently, an alternative strategy, to enable the Company to survive as a going concern, has been developed by the Board whereby focus has been placed on the development of the lower-risk B sands only with a view to more reliably sourcing cash flows in the short term and to return to deeper appraisal once operational cash has been increased. Whilst this strategy temporarily slows down the anticipated ramp-up rate in production, it ensures that the business operates within the cash generated from existing production and expected future production from the wells currently being drilled. This strategy is underpinned by a number of assumptions which involve making judgements about future events, such as gas price, a stable

Directors' Report continued

fiscal regime, successful drilling, expected future production levels, drilling schedule 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 reasonable possible changes in the above assumptions, show that the Group anticipates that it should be able to operate within the levels of its available cash balances for the foreseeable future. Nevertheless, circumstances may be subject to change; both favourable and adversely.

The Board's review of the accounts, budgets and forward plans, leads the Directors to believe that the Group has sufficient resources to continue in operation for the foreseeable future. The financial statements are therefore prepared on the going concern basis of accounting.

Post Balance Sheet Events

Post balance sheet events are described in Note 29 to the financial statements.

Directors and Directors' Interests

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

	Date appointed	Date resigned
K Henry	—	—
D J Greer	—	—
H Verkuil	—	—
R Wilde	—	—
A Coates	—	—
A Graham	14 January 2010	—
Lord St John of Bletso	—	14 January 2010
A Mozetic	—	14 January 2010

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 start of year or if later date of appointment	Interest at end of year	Interest at date of this report
D J Greer	Ordinary	110,000	110,000	510,000
K Henry	Ordinary	30,000	50,000	150,000
A Coates	Ordinary	—	30,578	77,245
Lord St John of Bletso	Ordinary	106,500	106,500	106,500
H Verkuil	Ordinary	—	—	230,000
R Wilde	Ordinary	—	—	120,000

Between year end and the date of this report, changes in the interests of Directors are due to the exercise of share options which were granted under the LTIP scheme in 2009.

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 5.

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 23 April 2010 the Company had been notified of the following interests of 3% or more in its issued share capital:

Substantial Shareholder	Number of shares	% of issued ordinary share capital
BlackRock Investment Management	31,445,782	9.88%
Safeguard Management	21,836,881	6.86%
Pope Asset Management	21,288,201	6.69%
Capital Research and Management Company	20,130,202	6.32%
Henderson Global Investors	16,052,733	5.04%
Ceska Sporitelna	12,636,067	3.97%
SEB Asset Management S.A.	11,402,669	3.58%

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 such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements in accordance with IFRSs as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of 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.

Each of the persons who is a Director at the date of approval of this report confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- the Chairman's Statement, Chief Executive Officer's Statement, Chief Operating Officer's Review and the Finance Review include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Directors' Report continued

Political and Charitable Contributions

During the year the Group made no charitable donations (2008: $nil) and no political contributions (2008: $nil).

Statement of Disclosure to Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is 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 s418 of the Companies Act 2006.

Auditors

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
23 April 2010

Our Financials

Independent Auditors' Report to the Members of Regal Petroleum plc

We have audited the financial statements of Regal Petroleum Plc for the year ended 31 December 2009 which comprise the Group Income Statement, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related Notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement in the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Paterson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
23 April 2010

Our Financials

Consolidated Income Statement

for the year ended 31 December 2009

	Note	2009 $000	2008 $000
Revenue	2	**19,872**	11,450
Cost of sales		**(6,230)**	(5,667)
Gross profit		**13,642**	5,783
Other administrative expenses		**(15,068)**	(18,023)
Share-based charge	22	**(7,618)**	(9,120)
Total administrative expenses		**(22,686)**	(27,143)
Other operating expenses: exploration costs written off	11	**(95)**	(3,467)
Operating loss		**(9,139)**	(24,827)
Investment revenue	2	**939**	5,501
Finance costs	7	**(144)**	(525)
Other net gains and (losses)	4	**1,514**	(28,888)
Loss on ordinary activities before taxation	3	**(6,830)**	(48,739)
Income tax expense	8	**(2,989)**	(2,074)
Loss on ordinary activities after taxation		**(9,819)**	(50,813)
Loss per ordinary share (cents)			
Basic and diluted	10	**(3.7¢)**	(25.6¢)

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	2009 $000	2008 $000
Equity — foreign currency translation	**(627)**	(2,028)
Net expense recognised directly in equity	**(627)**	(2,028)
Loss for the year	**(9,819)**	(50,813)
Total comprehensive loss for the year	**(10,446)**	(52,841)

Company Statement of Comprehensive Income

for the year ended 31 December 2009

	2009 $000	2008 $000
Loss for the year	**(13,194)**	(39,881)
Total comprehensive loss for the year	**(13,194)**	(39,881)

Consolidated Balance Sheet

at 31 December 2009

	Note	2009 $000	2008 $000
Assets			
Non-current assets			
Intangible assets	11	**27,067**	26,200
Property, plant and equipment	12	**151,492**	61,588
Trade and other receivables	15	**3,593**	—
		182,152	87,788
Current assets			
Inventories	14	**20,066**	19,021
Trade and other receivables	15	**16,752**	7,507
Cash and cash equivalents	16	**118,592**	106,078
		155,410	132,606
Total assets		**337,562**	220,394
Liabilities			
Current liabilities			
Current tax liabilities		**—**	(171)
Trade and other payables	17	**(23,489)**	(9,038)
		(23,489)	(9,209)
Net current assets		**131,921**	123,397
Non-current liabilities			
Trade and other payables	19	**(41)**	(101)
Provisions	20	**(3,878)**	(2,358)
Deferred tax	21	**(5,892)**	(3,093)
		(9,811)	(5,552)
Total liabilities		**(33,300)**	(14,761)
Net assets		**304,262**	205,633
Equity			
Called up share capital	22	**27,710**	19,094
Share premium account	23	**555,090**	462,249
Other reserves	23	**23,772**	17,383
Retained earnings	23	**(302,310)**	(293,093)
Total equity		**304,262**	205,633

The financial statements of Regal Petroleum plc, Company number 4462555, were approved by the Board of Directors and authorised for issue on 23 April 2010. They were signed on its behalf by:

Robert Wilde
Director

Our Financials

Consolidated Statement of Changes in Equity

at 31 December 2009

Group	Share capital $000	Share premium account $000	Equity share option reserve $000	Merger reserve $000	Capital contributions $000	Foreign exchange reserve $000	Retained earnings $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

	Share capital $000	Share premium account $000	Equity share option reserve $000	Merger reserve $000	Capital contributions $000	Foreign exchange reserve $000	Retained earnings $000	Total $000
At 1 January 2009	**19,094**	**462,249**	**10,575**	**(3,204)**	**7,477**	**2,535**	**(293,093)**	**205,633**
Retained loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(9,819)**	**(9,819)**
Current year IFRS 2 charge	**—**	**—**	**7,618**	**—**	**—**	**—**	**—**	**7,618**
Issued shares	**8,616**	**96,494**	**—**	**—**	**—**	**—**	**—**	**105,110**
Share issue costs	**—**	**(3,653)**	**—**	**—**	**—**		**—**	**(3,653)**
Exchange differences	**—**	**—**	**—**	**—**	**—**	**(627)**	**—**	**(627)**
Transfer for options exercised or expired	**—**	**—**	**(602)**	**—**	**—**	**—**	**602**	**—**
At 31 December 2009	**27,710**	**555,090**	**17,591**	**(3,204)**	**7,477**	**1,908**	**(302,310)**	**304,262**

Consolidated Cash Flow Statement

for the year ended 31 December 2009

	Note	2009 $000	2008 $000
Operating activities			
Cash from/(used in) operations	25	**7,151**	(13,159)
Interest paid		**(144)**	(193)
Taxation paid		**(391)**	(302)
Net cash from/(used in) operating activities		**6,616**	(13,654)
Investing activities			
Purchase of property, plant and equipment		**(67,356)**	(24,175)
Increase in related purchase tax receivable		**(15,040)**	(4,173)
Purchase of intangible assets		**(838)**	(8,244)
Purchase of materials inventory		**(16,107)**	(18,797)
Proceeds from sale of property, plant and equipment		**63**	—
Net cash used in investing activities		**(99,278)**	(55,389)
Financing activities			
Proceeds from borrowings		**—**	1,500
Settlement of borrowings		**—**	(10,500)
Funds received in connection with share options		**—**	7,075
Proceeds from issue of shares	23	**105,110**	206,030
Payment of share issue costs	23	**(3,653)**	(9,407)
Interest received on surplus funds from share issue		**1,063**	5,364
Net cash from financing activities		**102,520**	200,062
Net increase in cash and cash equivalents		**9,858**	131,019
Cash and cash equivalents at beginning of year		**106,078**	5,565
Effect of foreign exchange rate changes		**2,656**	(30,506)
Cash and cash equivalents at end of year	16	**118,592**	106,078

Our Financials

Company Balance Sheet

at 31 December 2009

	Note	2009 $000	2008 $000
Assets			
Non-current assets			
Intangible assets	11	**151**	201
Property, plant and equipment	12	**81**	279
Investments	13	**17,279**	17,279
Loans to Group undertakings	13	**175,327**	92,835
		192,838	110,594
Current assets			
Trade and other receivables	15	**886**	1,265
Cash and cash equivalents	16	**116,815**	103,014
		117,701	104,279
Total assets		**310,539**	214,873
Liabilities			
Current liabilities			
Trade and other payables	17	**(1,035)**	(1,250)
Net current assets		**116,666**	103,029
Total liabilities		**(1,035)**	(1,250)
Net assets		**309,504**	213,623
Equity			
Called up share capital	22	**27,710**	19,094
Share premium account	23	**555,090**	462,249
Share option reserve	23	**17,591**	10,575
Retained earnings	23	**(290,887)**	(278,295)
Shareholders' funds		**309,504**	213,623

These financial statements were approved by the Board of Directors and authorised for issue on 23 April 2010. They were signed on its behalf by:

Robert Wilde
Director

Company Statement of Changes in Equity

at 31 December 2009

Company	Share capital $000	Share premium account $000	Equity share option reserve $000	Retained earnings $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

	Share capital $000	Share premium account $000	Equity share option reserve $000	Retained earnings $000	Total $000
At 1 January 2009	**19,094**	**462,249**	**10,575**	**(278,295)**	**213,623**
Retained loss for the year	**—**	**—**	**—**	**(13,194)**	**(13,194)**
Current year IFRS 2 charge	**—**	**—**	**7,618**	**—**	**7,618**
Issued shares	**8,616**	**96,494**	**—**	**—**	**105,110**
Share issue costs	**—**	**(3,653)**	**—**	**—**	**(3,653)**
Transfer for options exercised or expired	**—**	**—**	**(602)**	**602**	**—**
At 31 December 2009	**27,710**	**555,090**	**17,591**	**(290,887)**	**309,504**

Our Financials

Company Cash Flow Statement

for the year ended 31 December 2009

	Note	2009 $000	2008 $000
Operating activities			
Cash used in operations	25	**(9,908)**	(14,595)
Interest paid		**—**	(160)
Net cash used in operating activities		**(9,908)**	(14,755)
Investing activities			
Purchase of property, plant and equipment		**(41)**	(229)
Investment in Group companies		**(82,902)**	(61,270)
Interest received from Group companies		**2,394**	—
Net cash used in investing activities		**(80,549)**	(61,499)
Financing activities			
Proceeds from borrowings		**—**	1,500
Settlement of borrowings		**—**	(10,500)
Funds received in connection with share options		**—**	7,075
Proceeds from issue of shares	23	**105,110**	206,030
Payment of share issue costs	23	**(3,653)**	(9,407)
Interest received on surplus funds from share issue		**1,043**	5,334
Net cash from financing activities		**102,500**	200,032
Net increase in cash and cash equivalents		**12,043**	123,778
Cash and cash equivalents at beginning of year		**103,014**	2,239
Effect of foreign exchange rate changes		**1,758**	(23,003)
Cash and cash equivalents at end of year	16	**116,815**	103,014

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 2006. The registered office is Lansdowne House, 57 Berkeley Square, London, W1J 6ER and the Company's 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 third 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.

New IFRSs and Interpretations

In preparing the financial statements of the Group for the current year, the Group has adopted the following pronouncements of the IASB for the first time. These pronouncements have not had a material impact on the results or net assets of the Group.

- IFRS 8 Operating Segments was issued in October 2006 and defines operating segments as components of an entityabout which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The new standard sets out the required disclosures for operating segments and is effective for annual periods beginning on or after 1 January 2009. The new standard has had no impact on the Group's reported income or net assets. The required disclosures are set out in Note 2.
- In September 2007 the IASB issued Amendments to IAS 1 Presentation of Financial Statements — A Revised Presentation, which required separate presentation of owner and non-owner changes in equity by introducing the statement of comprehensive income. The revised standard is effective for annual periods beginning on or after 1 January 2009. There has been no effect on the Group's reported income or net assets from the adoption of IAS 1 Revised.

The financial statements have been prepared after adopting the following pronouncements from the IASB which have no effect on either the reported results and financial position or the presentation or disclosure within the financial statements.

- IAS 23 (revised 2007) Borrowing Costs
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged items
- Embedded Derivatives (Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement)
- IFRIC 16 (Hedges of a Net Investment in a Foreign Operation)

Notes continued
forming part of the financial statements

1. Accounting Policies continued

New IFRSs and Interpretations continued
The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's financial statements from 2010 or later periods, but the Group has not early adopted them.

- IAS 27 (amended) — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IFRS 2 (amended)* — Group Cash-settled Share-based Payment Transactions
- IFRS 3 (revised 2008) — Business Combinations
- IFRS 9* — Financial Instruments
- IAS 24 (revised 2009)* — Related Party Disclosures
- IAS 27 (revised 2008) — Consolidated and Separate Financial Statements
- IAS 28 (revised 2008) — Investment in Associates
- IAS 32 (amended)* — Classification of Rights Issues
- IFRIC 14 (amended)* — Prepayment of a Minimum Funding Requirement
- IFRIC 17 — Distributions of Non-cash Assets to Owners
- IFRIC 18 — Transfers of Assets from Customers
- IFRIC 19* — Extinguishing Financial Liabilities with Equity Instruments

* Not yet endorsed by EU.

The Directors are still assessing the impact of the adoption of these Standards and Interpretations but do not believe them to have a material impact given the Group's current business plans and operations.

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.

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.

1. Accounting Policies continued

Commercial Reserves

Proven and probable oil and gas reserves are estimated quantities of commercially producable 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 Petroleum Resources Management System.

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.

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.

Our Financials

Notes continued
forming part of the financial statements

1. Accounting Policies continued

Impairment continued
Should an impairment loss subsequently reverse, 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.

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 presentation currencies of some subsidiary companies are in currencies other than US Dollars.

1. Accounting Policies continued

Foreign Currencies continued

The functional currency of individual companies is normally determined by the primary economic environment in which the entity operates, 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.

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.

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.

Notes continued
forming part of the financial statements

1. Accounting Policies continued

Taxation continued
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements 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.

1. Accounting Policies continued

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

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

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

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

All other borrowing costs are expensed as incurred.

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

Included in cash and cash equivalents are amounts relating to financial guarantees entered into by the Group to collateralise future commitments as per standard industry practice. 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 outstanding at 31 December 2009 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 of options under the 2004 Share Option Plan were calculated using a binomial option pricing model, whilst the fair values of options under the Long-Term Incentive Plan introduced during 2009 were calculated using the Black–Scholes model, with suitable modifications to allow for employee turnover after vesting and early exercise. The inputs to the models 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 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.

Notes continued
forming part of the financial statements

1. Accounting Policies continued

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 judgement 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.

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 22.

2. Segmental Information
Following the introduction of IFRS 8, effective for accounting periods beginning on or after 1 January 2009, the Group has made the following considerations to arrive at the disclosures made in these financial statements.

IFRS 8 requires consideration of the Chief Operating Decision Maker ("CODM") within the Group. In line with Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, who review internal monthly management reports, budget and forecast information as part of this. Accordingly, the Board of Directors is deemed to be the CODM.

The Group's only class of business activity is oil and gas exploration, development and production. The Group's primary operating segments are geographical, and are located in Ukraine, Romania and Egypt, with its head office in the United Kingdom. These geographical regions are the basis on which the Group reports its segment information, and are consistent with the primary segments reported in the prior year under IAS 14.

2. Segmental Information continued

	Ukraine		United Kingdom		Romania		Egypt		Total	
	2009 $000	2008 $000	**2009 $000**	2008 $000	**2009 $000**	2008 $000	**2009 $000**	2008 $000	**2009 $000**	2008 $000
Turnover										
Gas sales	**14,589**	6,625	**—**	—	**—**	—	**—**	—	**14,589**	6,625
Condensate sales	**5,283**	4,825	**—**	—	**—**	—	**—**	—	**5,283**	4,825
Total sales (incl. sales to third parties)	**19,872**	11,450	**—**	—	**—**	—	**—**	—	**19,872**	11,450
Segment result	**12,612**	3,037	**(10,534)**	(12,569)	**(160)**	(2,971)	**(351)**	(1,182)	**1,567**	(13,685)
Depreciation and amortisation									**(3,088)**	(2,022)
Share-based charge									**(7,618)**	(9,120)
Operating loss									**(9,139)**	(24,827)
Segment assets	**191,236**	88,654	**118,109**	104,658	**22,815**	22,273	**5,402**	4,809	**337,562**	220,394
Capital additions	**93,048**	29,984	**78**	229	**1,028**	4,361	**696**	2,036	**94,850**	36,610

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 $14,589,000 (2008: $6,625,000) are with one single external party with which the Group has an agreement. Total of revenue generated from operating and interest revenue is $20,811,000 (2008: $16,951,000).

3. Loss on Ordinary Activities Before Taxation

	2009 $000	2008 $000
Loss on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration (see below)	**328**	289
Depreciation	**2,998**	1,964
Amortisation of intangible assets	**90**	58
Production based taxes	**1,865**	2,328
Cost of inventories recognised as an expense	**460**	457
Staff costs	**15,181**	17,578

	2009 $000	2008 $000
Audit services:		
Fees payable to the Company's Auditors for the audit of the Parent Company and Consolidated accounts	**196**	146
Fees payable to the Company's Auditors and their associates for the audit of the Company's subsidiaries pursuant to legislation	**41**	67
	237	213
Other services:		
Other services pursuant to legislation — interim review	**56**	25
Other services relating to taxation	**35**	51
	91	76
Total audit and other services	**328**	289

All amounts shown as Auditors' remuneration were payable to Deloitte LLP, except for the 2008 interim review fee which was payable to UHY Hacker Young LLP.

Our Financials

Notes continued
forming part of the financial statements

4. Other Net Gains and (Losses)

	2009 $000	2008 $000
Unrealised foreign exchange gains/(losses)	**914**	(23,337)
Realised foreign exchange gains/(losses)	**600**	(5,551)
	1,514	(28,888)

Unrealised foreign exchange gains and losses include amounts 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 gains and losses arise due to the multicurrency nature of the Group's trading activities.

5. Remuneration of Directors

	2009 $000	2008 $000
Directors' emoluments	**2,141**	2,526

The emoluments of the individual Directors were as follows:

	Basic salary and fees 2009 $000	Bonus 2009 $000	Benefits in kind 2009 $000	Aggregate emoluments 2009 $000	Pension contributions 2009 $000	**Total emoluments 2009 $000**	Total emoluments 2008 $000
K Henry	156	—	—	156	—	**156**	105
D J Greer	470	188	7	665	86	**751**	1,330
H Verkuil	316	112	17	445	43	**488**	512
R Wilde	294	108	18	420	42	**462**	338
Lord St John of Bletso	116	—	—	116	—	**116**	89
A Mozetic	115	—	—	115	—	**115**	119
A Coates	63	—	—	63	—	**63**	21
F Scolaro	—	—	—	—	—	**—**	12
	1,530	408	42	1,980	171	**2,151**	2,526

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.

No options to acquire ordinary shares in the Company granted to or held by Directors were exercised during the year (2008: 500,000).

In 2008 Frank Scolaro received $23,190 in consulting fees in recognition of additional services performed while a Director, which are not included in the table above.

5. Remuneration of Directors continued

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	Share options surrendered	Replacement LTIP grant	New LTIP grant	At end of year	Exercise price (£)	Date from which exercisable	Expiry date
Keith Henry	250,000	(250,000)	100,000	41,667	141,667	0.05	31.12.2009	13.07.2014
	250,000	(250,000)	100,000	—	100,000	0.05	15.04.2010	13.07.2014
	—	—	—	41,667	41,667	0.05	31.03.2011	13.07.2014
	250,000	(250,000)	100,000	—	100,000	0.05	15.04.2011	13.07.2014
	—	—	—	41,667	41,667	0.05	31.03.2012	13.07.2014
David Greer	1,000,000	(1,000,000)	400,000	250,000	650,000	0.05	31.12.2009	13.07.2014
	500,000	(500,000)	150,000	—	150,000	0.05	31.12.2009	13.07.2014
	1,000,000	(1,000,000)	400,000	—	400,000	0.05	—	13.07.2014
	—	—	—	250,000	250,000	0.05	31.03.2011	13.07.2014
	—	—	—	250,000	250,000	0.05	31.03.2012	13.07.2014
Harry Verkuil	500,000	(500,000)	200,000	109,375	309,375	0.05	31.12.2009	13.07.2014
	500,000	(500,000)	150,000	—	150,000	0.05	31.12.2009	13.07.2014
	500,000	(500,000)	165,000	—	165,000	0.05	—	13.07.2014
	—	—	—	109,375	109,375	0.05	31.03.2011	13.07.2014
	—	—	—	109,375	109,375	0.05	31.03.2012	13.07.2014
Robert Wilde	500,000	(500,000)	200,000	109,375	309,375	0.05	31.12.2009	13.07.2014
	500,000	(500,000)	165,000	—	165,000	0.05	—	13.07.2014
	—	—	—	109,375	109,375	0.05	31.03.2011	13.07.2014
	500,000	(500,000)	150,000	—	150,000	0.05	01.05.2011	13.07.2014
	—	—	—	109,375	109,375	0.05	31.03.2012	13.07.2014
Adrian Coates	83,334	(83,334)	30,000	16,667	46,667	0.05	31.12.2009	13.07.2014
	83,333	(83,333)	30,000	—	30,000	0.05	18.07.2010	13.07.2014
	—	—	—	16,667	16,667	0.05	31.03.2011	13.07.2014
	83,333	(83,333)	30,000	—	30,000	0.05	18.07.2011	13.07.2014
	—	—	—	16,667	16,667	0.05	31.03.2012	13.07.2014
Antonio Mozetic	350,000	—	—	—	350,000	1.50	04.02.2009	04.02.2018
Lord St John of Bletso	250,000	—	—	—	250,000	0.875	24.10.2006	23.04.2015
	250,000	—	—	—	250,000	1.50	04.02.2009	07.07.2018

During the year, a new Long-Term Incentive Plan (LTIP) scheme was introduced. As part of this arrangement the terms of the previous share option scheme were modified, resulting in the affected share options being surrendered and replaced by new options issued under the LTIP scheme.

Options granted under the new LTIP scheme are subject to specific performance criteria. The criteria ranges include continuing employment with the Company and specific operational targets being met. For more information on the new LTIP scheme see Note 22.

Remaining options granted under the 2004 Share Option Scheme have already vested.

Our Financials

Notes continued
forming part of the financial statements

6. Staff Numbers and Costs

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

	Number of employees	
	2009	2008
Group		
Management/operational	**116**	93
Administrative support	**43**	36
	159	129

The aggregate staff costs of these employees was as follows:

	2009 $000	2008 $000
Wages and salaries	**5,706**	6,809
Social security costs	**964**	897
Pension costs	**893**	752
Share option charge (see Note 22)	**7,618**	9,120
	15,181	17,578

In addition to the defined contribution pension scheme in the United Kingdom, the Group contributes to a local government pension scheme within Ukraine. The Group has no further payment obligations towards the local government pension scheme once the contributions have been paid.

7. Finance Costs

	2009 $000	2008 $000
Interest on bank loans	**—**	87
Interest on obligations under finance leases	**47**	33
Finance and arrangement fees	**—**	405
Unwinding of discount on decommissioning provision	**97**	—
	144	525

8. Taxation

Analysis of charge in period:	2009 $000	2008 $000
Current tax		
Overseas — current year	**190**	214
Deferred tax		
UK — current year	**3,505**	1,860
UK — prior year	**(706)**	—
Tax on profit on ordinary activities	**2,989**	2,074

The tax charge for the period is higher than the standard rate of corporation tax in the UK of 28% (2008: 28.5% blended). The charge for the period can be reconciled to the loss as per the income statement as follows:

	2009 $000	2008 $000
Current tax reconciliation		
Loss on ordinary activities before tax	**(6,830)**	(48,739)
Current tax credit at 28% (2008: 28.5%)	**(1,912)**	(13,891)
Effects of:		
Tax effect of the application of overseas tax rates	**107**	753
Tax effect of expenses/(income) not deductible/(assessable) in determining taxable profit/(loss)	**3,598**	4,497
Tax effect of losses not recognised	**1,902**	10,715
Tax effect of prior year adjustments	**(706)**	—
Tax charge for the year	**2,989**	2,074

Factors Affecting Future Tax Charge

The Directors do not consider it appropriate to recognise any deferred tax asset to reflect the potential benefit arising from temporary differences at 31 December 2009 as there is insufficient evidence of future taxable profits.

At 31 December 2009, and in gross terms, the Group are not recognising deferred tax assets in relation to carried forward tax relief of approximately $154 million (2008: $150 million). The majority of this amount (approximately $135 million) relates to UK tax losses which can be carried forward indefinitely.

9. Loss for the Financial Year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 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 $13,194,000 for the year ended 31 December 2009 (2008: $39,881,000).

Our Financials

Notes continued
forming part of the financial statements

10. Loss per Share

Basic loss per share of 3.7 cents (2008: 25.6 cents) is based upon losses of $9,819,000 (2008: $50,813,000) and 264,073,061 (2008: 198,378,455) 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.

11. Intangible Fixed Assets

	2009				2008			
	Exploration assets		**Computer**		Exploration assets		Computer	
	Romania	**Egypt**	**software**	**Total**	Romania	Egypt	software	Total
	$000	**$000**	**$000**	**$000**	$000	$000	$000	$000
Group								
Cost								
At beginning of year	**21,187**	**4,794**	**447**	**26,428**	22,245	3,654	263	26,162
Additions	**1,028**	**696**	**37**	**1,761**	4,360	2,027	184	6,571
Exploration costs written off	**—**	**(95)**	**—**	**(95)**	(2,580)	(887)	—	(3,467)
Effect of movement in foreign exchange	**(709)**	**—**	**—**	**(709)**	(2,838)	—	—	(2,838)
At end of year	**21,506**	**5,395**	**484**	**27,385**	21,187	4,794	447	26,428
Amortisation								
At beginning of year	**—**	**—**	**228**	**228**	—	—	170	170
Charge for year	**—**	**—**	**90**	**90**	—	—	58	58
At end of year	**—**	**—**	**318**	**318**	—	—	228	228
Net book value at 31 December	**21,506**	**5,395**	**166**	**27,067**	21,187	4,794	219	26,200

	2009	2008
	Computer software	Computer software
	$000	$000
Company		
Cost		
At beginning of year	**385**	222
Additions	**22**	163
At end of year	**407**	385
Amortisation		
At beginning of year	**184**	136
Charge for year	**72**	48
At end of year	**256**	184
Net book value at 31 December	**151**	201

12. Property, Plant and Equipment

	2009			2008		
	Exploration and Development costs Ukraine $000	**Other fixed assets* $000**	**Total $000**	Exploration and Development costs Ukraine $000	Other fixed assets* $000	Total $000
Group						
Cost						
At beginning of year	**66,495**	**1,713**	**68,208**	36,872	1,441	38,313
Additions	**92,966**	**123**	**93,089**	29,661	378	30,039
Disposals	**—**	**(351)**	**(351)**	—	—	—
Effect of movement in foreign exchange	**(3)**	**(11)**	**(14)**	(38)	(106)	(144)
At end of year	**159,458**	**1,474**	**160,932**	66,495	1,713	68,208
Depreciation						
At beginning of year	**5,609**	**1,011**	**6,620**	3,871	881	4,752
Charge for year	**2,787**	**211**	**2,998**	1,738	226	1,964
On disposals	**—**	**(168)**	**(168)**	—	—	—
Effect of movement in foreign exchange	**—**	**(10)**	**(10)**	—	(96)	(96)
At end of year	**8,396**	**1,044**	**9,440**	5,609	1,011	6,620
Net book value at 31 December	**151,062**	**430**	**151,492**	60,886	702	61,588

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

	2009 Other fixed assets $000	2008 Other fixed assets $000
Company		
Cost		
At beginning of year	**936**	870
Additions	**56**	66
Disposals	**(351)**	—
At end of year	**641**	936
Depreciation		
At beginning of year	**657**	515
Charge for year	**71**	142
On disposals	**(168)**	—
At end of year	**560**	657
Net book value at 31 December	**81**	279

Our Financials

Notes continued
forming part of the financial statements

13. Fixed Asset Investments

	Shares in subsidiary undertakings $000	Loans to subsidiary undertakings $000	Total $000
Company			
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
Cost			
At 1 January 2009	**17,279**	**92,835**	**110,114**
Additions	**—**	**82,492**	**82,492**
At 31 December 2009	**17,279**	**175,327**	**192,606**

Principal subsidiary undertakings

At 31 December 2009, 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	% 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 Exploration	100%
Regal Egypt Limited	United Kingdom	Egypt	Oil & Natural Gas Exploration	100%
Regal Group Services Limited	United Kingdom	United Kingdom	Service Company	100%

The Parent Company holds indirect interests 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 their 100% ownership by Regal Petroleum (Jersey) Limited. Regal Petroleum Corporation (Ukraine) Limited is controlled by its 100% ownership by Regal Petroleum (Jersey) Limited and Regal Group Services Limited.

14. Inventories

	Group	
	2009 $000	2008 $000
Materials	**20,024**	18,832
Condensate stock	**42**	189
	20,066	19,021

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

15. Trade and Other Receivables

	Group		Company	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Trade receivables	**18**	1	**—**	—
Amounts owed by Group undertakings	**—**	—	**38**	332
Prepayments and accrued income	**1,867**	1,730	**417**	580
Purchase tax receivable	**14,505**	5,428	**152**	252
Other receivables	**362**	348	**279**	101
	16,752	7,507	**886**	1,265

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

Purchase tax receivable in respect of the Group includes $13,176,000 (2008: $4,272,000) relating to capital expenditure in Ukraine which is expected to be recovered via an offset against purchase tax payable on future sales in that country. There is an additional $3,593,000 (2008: $nil) which is included within non-current trade and other receivables as, based on the Group's future sales projections, it is not expected to be recoverable within one year. The Directors are satisfied that all such amounts are fully recoverable.

16. Cash and Cash Equivalents

	Group		Company	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Cash at bank and on hand	**1,862**	1,861	**102**	97
Short-term deposits on hand	**98,643**	73,799	**98,626**	73,696
Restricted cash	**18,087**	30,418	**18,087**	29,221
	118,592	106,078	**116,815**	103,014

Cash at bank earns 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 $118,592,000 (2008: $106,078,000). The Group only deposits cash surpluses with major banks of high quality credit standing.

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.

17. Trade and Other Payables

	Group		Company	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Trade payables	**7,543**	2,669	**183**	862
Taxation and social security	**294**	603	**—**	—
Accruals and deferred income	**15,652**	5,766	**852**	388
	23,489	9,038	**1,035**	1,250

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

Notes continued
forming part of the financial statements

18. Borrowings

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. During 2008, the total amount outstanding on this facility of $10.5 million was repaid from 2008 share placement proceeds and the facility cancelled in full in April 2008. Interest paid on this facility was not capitalised as the facility was used to fund operational cash flows.

19. Obligations Under Finance Leases

	Group	
	2009 $000	2008 $000
Amounts payable under finance leases:		
Within one year	**89**	97
In the second to fifth years inclusive	**63**	244
	152	341
Less future finance, service and insurance charges	**(56)**	(195)
Present value of lease obligations	**96**	146
Amount due for settlement within 12 months (shown under current liabilities)	**55**	45
Amount due for settlement after 12 months	**41**	101

The finance leases relate to motor vehicles in Ukraine. The average lease term is three years. For the year ended 31 December 2009, the average effective borrowing rate was 14.67% (2008: 14.67%). 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. At 31 December 2009, the carrying value of these assets was $148,000 (2008: $214,000).

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

20. Provisions for Liabilities and Charges

	Provision for decommissioning $000	Other $000	Total $000
Group			
At beginning of year	2,274	84	2,358
Amounts provided	1,361	62	1,423
Unwinding of discount	97	—	97
At end of year	**3,732**	**146**	**3,878**

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 2011 and 2024.

21. Deferred Tax

	Group	
	2009 $000	2008 $000
At beginning of year	**3,093**	1,233
Charged to income statement — current year	**3,505**	1,860
Credited to income statement — prior year	**(706)**	—
At end of year	**5,892**	3,093

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

Notes continued
forming part of the financial statements

22. Called up Share Capital

	2009		2008	
	Number	**$000**	Number	$000
Authorised				
Ordinary shares of 5p each (approximately 7 cents each)	**600,000,000**	**41,394**	300,000,000	17,905
Allotted, called up and fully paid				
Opening balance at 1 January	**211,645,664**	**19,094**	143,028,824	12,378
Issued during the year:				
— Exercise of share options	**—**	**—**	3,800,000	377
— Share issue	**104,000,000**	**8,616**	64,816,840	6,339
Closing balance at 31 December	**315,645,664**	**27,710**	211,645,664	19,094

There are no restrictions over ordinary shares issued.

During the year the Company increased its authorised share capital to £30,000,000 via the creation of an additional 300,000,000 ordinary shares of 5 pence each, ranking *pari passu* in all respects with the existing ordinary shares of the Company.

Share Option Schemes

Long Term Incentive Plan (LTIP)

During the year the Company introduced an LTIP scheme for certain Directors and senior employees of the Group. As part of these arrangements, the terms of the previous share option scheme were modified. This resulted in a total of 9,490,000 share options (the "Options"), of which 3,365,000 had already vested, being surrendered in exchange for options over 3,436,000 ordinary shares of 5 pence each under the LTIP (the basis of the exchange having been determined, *inter alia*, using an indicative Binomial Option pricing analysis of the value of the holder's existing Options). The LTIP awards are time and performance based, vest in three tranches on 31 December 2009, 31 March 2011 and 31 March 2012 and are in the form of a right to acquire Ordinary Shares at their nominal value, being a price of 5 pence per Ordinary Share. The performance conditions are non-market based, being linked to certain pre-defined operational milestones.

Share Option Scheme

The 2004 Share Option Scheme is still in operation, but only applies to certain Non-Executive Directors and one external party granted the right to subscribe for shares in the Company. For the Non-Executive Directors, the remaining options granted under the 2004 Share Option Scheme have vested.

For both schemes, options are normally forfeited if the employee leaves the Group before the options vest.

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

	2009 number	**2009 WAEP £**	2008 number	2008 WAEP £
Outstanding at beginning of year	**11,736,600**	**1.796**	4,175,000	1.000
Surrendered during the year	**(9,940,000)**	**(1.866)**	—	—
Replacement options granted	**3,328,500**	**0.050**	—	—
New options granted during the year	**2,963,129**	**0.050**	11,386,600	1.801
Exercised during the year	**—**	**—**	(3,800,000)	(0.937)
Expired at end of year	**(138,000)**	**(1.101)**	(25,000)	(1.480)
Outstanding at end of year	**7,950,229**	**0.340**	11,736,600	1.796
Exercisable at end of year	**4,417,812**	**0.571**	2,211,600	1.976

22. Called up Share Capital continued

The principal inputs to the options valuation model were:

2009

Exercise price range	5p to 150p
Remaining contractual life	1 to 3 years
Weighted average share price	68.6p
Risk free interest rate	0.59%–2.25% p.a.
Expected volatility	83%–117% p.a.
Dividend yield	0% p.a.
Employee turnover	From 0% to 10% p.a. depending on seniority
Early exercise	At rates dependent upon seniority and potential gain from exercise

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% to 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
2007	0.456	1.09
2008	1.069	1.83
2009	0.795	1.58

The Company recognised a total charge of $7,618,000 (2008: $9,753,000) in respect of cash and equity settled share-based awards. This includes an additional charge of $nil (2008: $633,000) 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 ended 31 December 2008. An amount of $602,000 (2008: $3,023,000) was transferred between the equity share option reserve and the profit and loss account upon the exercise or lapse or certain awards (see Note 23).

Our Financials

Notes continued

forming part of the financial statements

23. Share Premium and Reserves

Group	Share capital $000	Share premium account $000	Equity share option reserve $000	Merger reserve $000	Capital contributions $000	Foreign exchange reserve $000	Retained earnings $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

	Share capital $000	**Share premium account $000**	**Equity share option reserve $000**	**Merger reserve $000**	**Capital contributions $000**	**Foreign exchange reserve $000**	**Retained earnings $000**	**Total $000**
At 1 January 2009	**19,094**	**462,249**	**10,575**	**(3,204)**	**7,477**	**2,535**	**(293,093)**	**205,633**
Retained loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(9,819)**	**(9,819)**
Current year IFRS 2 charge	**—**	**—**	**7,618**	**—**	**—**	**—**	**—**	**7,618**
Issued shares	**8,616**	**96,494**	**—**	**—**	**—**	**—**	**—**	**105,110**
Share issue costs	**—**	**(3,653)**	**—**	**—**	**—**	**—**	**—**	**(3,653)**
Exchange differences	**—**	**—**	**—**	**—**	**—**	**(627)**	**—**	**(627)**
Transfer for options exercised or expired	**—**	**—**	**(602)**	**—**	**—**	**—**	**602**	**—**
At 31 December 2009	**27,710**	**555,090**	**17,591**	**(3,204)**	**7,477**	**1,908**	**(302,310)**	**304,262**

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 exercise or expiry.

23. Share Premium and Reserves continued

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	Retained earnings $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

	Share capital $000	**Share premium account $000**	**Equity share option reserve $000**	**Retained earnings $000**	**Total $000**
At 1 January 2009	**19,094**	**462,249**	**10,575**	**(278,295)**	**213,623**
Retained loss for the year	**—**	**—**	**—**	**(13,194)**	**(13,194)**
Current year IFRS 2 charge	**—**	**—**	**7,618**	**—**	**7,618**
Issued shares	**8,616**	**96,494**	**—**	**—**	**105,110**
Share issue costs	**—**	**(3,653)**	**—**	**—**	**(3,653)**
Transfer for options exercised or expired	**—**	**—**	**(602)**	**602**	**—**
At 31 December 2009	**27,710**	**555,090**	**17,591**	**(290,887)**	**309,504**

Our Financials

Notes continued
forming part of the financial statements

24. Operating Lease Arrangements
The Group as lessee

	Group		Company	
	2009 $000	2008 $000	**2009 $000**	2008 $000
Minimum lease payments under operating leases recognised as an expense for the year	**611**	304	**459**	304

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	**2009 Land and buildings $000**	2008 Land and buildings $000
Amounts payable due:		
— Within one year	**464**	327
— In the second to fifth years inclusive	**1,045**	1,585
	1,509	1,912

25. Reconciliation of Operating Loss to Operating Cash Flow

Group	**2009 $000**	2008 $000
Operating loss	**(9,139)**	(24,827)
Depreciation, amortisation and impairment charges	**3,088**	2,022
Movement in provisions	**61**	(1,249)
Share option charge	**7,618**	9,120
Exploration costs written off	**95**	3,467
(Increase)/decrease in stock	**(100)**	73
Decrease/(increase) in debtors	**3,802**	(233)
Increase/(decrease) in creditors	**1,726**	(1,532)
Cash from/(used in) operations	**7,151**	(13,159)

Company	**2009 $000**	2008 $000
Operating loss	**(18,274)**	(21,851)
Depreciation, amortisation and impairment charges	**327**	190
Share option charge	**7,618**	9,120
Write off of borrowing costs	**—**	375
Movement in provisions	**(29)**	(1,171)
Increase in debtors	**(38)**	(120)
Increase/(decrease) in creditors	**488**	(1,138)
Cash used in operations	**(9,908)**	(14,595)

26. 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 2008.

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 23.

There are no capital requirements imposed on the Group.

The Group's financial instruments comprise cash and cash equivalents 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 2009 the Group does not have any long-term borrowings (2008: $nil). 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	2009 $000	2008 $000
Cash and cash equivalents	**118,592**	106,078
Trade and other receivables	**178**	348
	118,770	106,426

Financial Liabilities	2009 $000	2008 $000
Trade and other payables	**7,326**	2,352
Accruals	**15,130**	5,424
	22,456	7,776

Currency Risk

The functional currency of the majority of entities in 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	2009 $000	2008 $000
British Pounds	**28,121**	31,191
Euros	**29,989**	64,131
Ukraine Hryvnia	**8,230**	4,104
Romanian Lei	**1,452**	109
	67,792	99,535

Further disclosure regarding foreign currency risk management including how potential exposures are managed is discussed under the section titled Operating Environment, Principal Risks and Uncertainties.

Notes continued

forming part of the financial statements

26. Financial Instruments continued

Foreign Currency Sensitivity Analysis

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

The following table details the Group's sensitivity to a 10 per cent increase and decrease in the US Dollar against the stated currencies. 10 per cent 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 per cent against the relevant currency. For a 10 per cent 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.

	Euro currency change		Sterling currency change		Hryvnia currency change	
Currency	**2009 $000**	2008 $000	**2009 $000**	2008 $000	**2009 $000**	2008 $000
Profit/(loss)						
— 10 per cent strengthening of USD	**(3,040)**	(4,984)	**(2,976)**	(3,227)	**(42)**	(47)
— 10 per cent weakening of USD	**3,040**	4,984	**2,976**	3,227	**42**	47
Other equity						
— 10 per cent strengthening of USD	**(3,040)**	(4,984)	**(2,976)**	(3,227)	**(42)**	(47)
— 10 per cent weakening of USD	**3,040**	4,984	**2,976**	3,227	**42**	47

Interest Rate Risk Management

The Group is not exposed to interest rate risk on financial liabilities as none of the entities in the Group have any external 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 on financial assets 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 are 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 per cent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates.

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

- loss for the year ended 31 December 2009 would decrease by $525,000 in the event of 0.5% higher interest rates and increase by $516,000 in the event of 0.5% lower interest rates (2008: decrease and increase by $591,000). 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 (2008: not affected).

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

26. Financial Instruments continued

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, February and June 2008 and July 2009, 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 16.

Liquidity, credit and cash flow risk for the Group are further detailed under the section titled Operating Environment, Principal Risks and Uncertainties 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 2009 with an exposure to interest rate risk:

Currency	**2009** Total $000	**2009** Floating rate financial assets $000	**2009** Fixed rate financial assets $000	2008 Total $000	2008 Floating rate financial assets $000	2008 Fixed rate financial assets $000
British Pounds	**29,765**	**29,765**	**—**	32,342	32,342	—
US Dollars	**57,996**	**57,996**	**—**	7,847	7,847	—
Euros	**30,399**	**30,399**	**—**	64,857	64,857	—
Ukraine Hryvnia	**416**	**416**	**—**	923	923	—
Romanian Lei	**16**	**16**	**—**	109	109	—
Total	**118,592**	**118,592**	**—**	106,078	106,078	—

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

Interest Rate Risk Profile of Financial Liabilities

The Group had no interest-bearing financial liabilities at year end (2008: $nil).

All the Group's creditors falling due within one year are excluded because they are not interest bearing.

Maturity of Financial Liabilities

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

	2009 $000	2008 $000
In one year or less	**22,456**	7,776
Within two to five years	**—**	—
In more than five years	**—**	—
Total	**22,456**	7,776

Our Financials

Notes continued
forming part of the financial statements

26. Financial Instruments continued

Borrowing Facilities

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

Fair Value of Financial Assets and Liabilities

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

Commodity Price Risk

Risks relating to the fluctuation in the natural gas price are discussed under the section titled Operating Environment, Principal Risks and Uncertainties.

27. Capital Commitments

Amounts contracted in relation to the Ukraine field development but not provided for in the financial statements at 31 December 2009 were $699,000 (2008: $2,090,000). 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, results in a total minimum commitment through to early 2011 of $59,220,000 (2008: $103,554,000). However, the Company has the legal right to subcontract these rigs which may partially or wholly mitigate any exposure.

28. Related Party Disclosures

Key management personnel of the Group are considered to comprise only the Directors. Details of Directors' remuneration are disclosed in Note 5.

29. Post Balance Sheet Events

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

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Glossary

km
kilometres

km^2
square kilometres

m^3/d
cubic metres per day

Mm^3
thousand cubic metres

Mm^3/d
thousand cubic metres per day

MMcf/d
million cubic feet per day

bbl
barrel

boepd
barrels of oil equivalent per day

MMboe
million barrels of oil equivalent

$
United States Dollar

hp
horsepower

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