

The background features a large, abstract graphic composed of several overlapping shapes. A large red shape, resembling a stylized 'P' or a drop, is the central focus. To its left, a white semi-circle overlaps the red shape. Below the white semi-circle, a black triangular shape points downwards. The bottom of the page is a solid red horizontal band.

Regal Petroleum

Annual Report and Accounts 2010

Regal Petroleum

Regal Petroleum plc is an independent United Kingdom based Group, focused on gas field development in Ukraine.



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Principal Developments

DEVELOPMENTS IN 2010

- The Company remains subject to a suspension order received by the Company in May 2010 by the Ukrainian Ministry of Environmental Protection in relation to its operations on its gas and condensate fields in Ukraine. Both fields remain shut-in;
- In September 2010, the Company announced a strategic review of reservoir performance and its business plans. The review concluded that development of the Company's Ukrainian assets would require further technical studies, including the testing of alternative technologies for well completion;
- Discussions with Saipem with regard to the utilisation of the drilling rigs operated by Saipem concluded with settlement agreements in December 2010, whereby its long term drilling contracts were terminated;
- During 2010, the Company completed four wells and worked over MEX-103, MEX-106 and SV-58; and
- The Group recorded a loss for the year of \$40.6 million (2009: loss of \$9.8 million), which includes an impairment charge on its exploration portfolio of \$15.3 million and the cost of settling its Saipem obligations of \$18.7 million.

POST YEAR END EVENTS

- The Company received an offer from Energiees Management Limited (part of the Smart Holding Group) to acquire the entire issued share capital of Regal for a cash consideration of 24 pence per share in December 2010. On 6 February, Energiees increased its offer to 38 pence per share and simultaneously scaled this back to a partial offer for a majority holding of the issued share capital of the Company. On 4 March 2011, Energiees increased partial cash offer closed at 54% of Regal's issued share capital;
- On 29 September 2010, the Company entered into a conditional sale and purchase agreement with Chevron for the sale of the Barlad concession to Chevron for a cash consideration of \$25 million (excluding VAT and before taxes). The Company successfully concluded this sale on 14 February 2011; and
- Regal entered into a sale and purchase agreement with Apache in January 2011 for the sale of its interest in the East Ras Budran, Egypt concession for a consideration of \$1.1 million.

Group at a Glance



UKRAINE

The Ukrainian licences are the Company's primary assets. A large gas and condensate field, comprising a series of stratigraphically trapped, paleo-deltaic sand reservoirs, extends under two neighbouring production licences over a combined area of 269 km², approximately 200 km east of Kiev. These licences are known as the MEX-GOL and SV fields (100% Regal owned) and the interests are operated and managed by the Company as one field.

ROMANIA

The Suceava partnership, in which Regal holds a non-operated 50% interest, drilled well Climauti-1 in the Suceava Block in June 2010. The well was a gas discovery in Sarmatian reservoirs at around 460m and it is estimated should yield approximately 2 bcf gross of recoverable gas reserves. The well was tied into the Bilca gas plant and came on stream on 4 March 2011 with a daily production rate of 30,000 m³/day. This asset is intended for divestment.

FIND OUT MORE AT
www.regalpetroleum.co.uk

Chairman's Statement

The 2010 Annual Report and Accounts, presented here, reflect an extremely difficult period for the Company. Despite early indications of a resolution to some of the technical challenges faced on the first two new development wells in the Ukraine, the Company experienced further setbacks in the third quarter following some disappointing results from subsequent drilling and work-overs on its Ukrainian production licences. The resulting shortfall in anticipated production, coupled with the suspension order issued by the Ukrainian Ministry of Environmental Protection, meant revenue and operational cash flows fell significantly below expectations.

Clearly, from an operational perspective, developing the Ukrainian field was proving more difficult than had initially been thought. Consequently, in September 2010, the Company announced a strategic review of reservoir performance and its business plans, including exploring and pursuing ways to strengthen its cash position by reducing costs and contractual exposures whilst optimising production. The review concluded that development of the Company's Ukrainian assets would require further technical studies, including the testing of alternative technologies for well completion, such as hydraulic fracturing, following which the impact, if any, on the Company's estimated reserves and the investment capital required to fund future development could be determined. Since this plan did not envisage further drilling in the short term and assumed that future wells would initially focus on the shallower B-Sand reservoirs, the Company decided to finalise its discussions with Saipem SpA ("Saipem") with regard to both the utilisation of the drilling rigs operated by Saipem and to the various other arrangements between Saipem and Regal. This concluded with settlement agreements in December 2010, whereby its long term drilling contracts were terminated and these other arrangements settled in order to stem the Company's largest contractual exposures. Financial settlement with Saipem, under these agreements, was reached in February 2011 using the majority of the proceeds from the sale of the Company's Barlad concession in Romania to Chevron Exploration and Production BV ("Chevron"). This sale had been agreed in September 2010, subject to satisfaction of a number of conditions precedent, which were fully discharged by February 2011.

The Company remains subject to a suspension order issued by the Ukrainian Ministry of Environmental Protection in relation to its operations at the Mekhediviska-Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") gas and condensate fields. In light of court rulings against Regal in the fourth quarter of 2010, as announced on 17 November and 1 December 2010, the Company shut-in and suspended its operations at these fields. Both fields remain shut-in and the continuing loss of production and revenues further exacerbates the Company's financial position.

On 25 November 2010, the Company announced it had received a number of approaches in relation to a potential offer for the Company and, as part of its strategic review, entered into negotiations with several parties regarding potential corporate options. This resulted in the Company receiving an offer from Energiees Management Limited ("Energiees"; part of the Smart Holding Group "Smart") to acquire the entire issued and to be issued share capital of Regal for a cash consideration of 24 pence per share in December 2010. The Board of Directors of Regal recommended the Energiees offer to shareholders, having taken into consideration the technical difficulties associated with bringing the wells to sustainable commercial production rates; the uncertainty in the outcomes of further reservoir appraisal and the potential impact, if any, on the reserves estimate; the loss of operational revenue as a result of the suspension order and uncertainty as to when production may be allowed to resume; the additional capital requirements for further appraisal and field development; and the ongoing legal and political risks surrounding the Ukrainian operations.

Whilst subject to the offer from Energiees, Regal received an alternative approach from Heamoor/Geo-Alliance Oil-Gas Public Limited ("Geo-Alliance") with regard to, inter alia, a possible reverse takeover by Regal of Geo-Alliance. Considerable effort was expended in attempting to bring this proposal to shareholders as a formal offer. However, on 6 February 2011, Energiees increased its offer to 38 pence per share and simultaneously scaled this back to a partial offer for a majority holding of the issued share capital of the Company. The Energiees increased partial cash offer was announced by Energiees on the condition that Regal terminate its discussions with Geo-Alliance. Given the risks associated with completion of the reverse takeover proposed by Geo-Alliance and in the light of a significantly increased firm offer by Energiees, your Board recommended that shareholders accept the increased partial cash offer. This concluded with the announcement on 4 March 2011, that the Energiees increased partial cash offer was closed at 54% of Regal's shares.

Board Changes

In addition to welcoming Dr Alastair Graham to the Board as a non-executive Director following his appointment in January 2010 and as announced in last year's Annual Report, I also have pleasure in welcoming Mr Alexey Timofeyev and Mr Alexey Pertin as non-executive Directors on 28 March and 1 April 2011, respectively, and Mr Denis Rudev as an executive Director on 1 April 2011. In accordance with the Relationship Agreement, announced on 3 March 2011, Energiees Investments Limited and JSC Smart Holding UA ("JSC Smart") are entitled to nominate three appointees to the Board.

Mr Pertin is currently a Director of Energees Investments Ltd and Energees and is the Chief Executive Officer of JSC Smart. Mr Timofeyev is currently First Deputy Chief Executive Officer for Corporate Development and Asset Management at JSC Smart. Mr Rudev is currently a Director of Energees and First Deputy Chief Executive Officer for Finance of JSC Smart.

On 29 September 2010, Mr David Greer stepped down as Chief Executive Officer and Director of the Company, leaving myself to act as Chief Executive Officer until a replacement is appointed.

On 21 April 2011, Mr Harry Verkuil resigned as Chief Operating Officer and Director of the Company with immediate effect to pursue other business opportunities. The Company would like to record its appreciation of David Greer's and Harry Verkuil's contribution to the Company since their appointment in November 2007 and January 2008, respectively.

Outlook

As stated at the time of making its offer to acquire its interest in Regal, Smart has an established long-term strategy to become one of the leading diversified natural resources holding companies in Ukraine. In completing the partial acquisition of Regal and becoming the Company's major shareholder, Smart is progressing this strategy. The Company's Directors believe that Regal now has a considerably strengthened position in Ukraine.

Regal will have access to a strong management team, who are believed to be well placed to address the legal issues facing the Company, particularly in relation to the suspension order issued by the Ministry of Environmental Protection.

Smart recognises that in order to develop the Regal business, investment of further capital will be required. While Smart management has made no firm decision on the form of such investment, it is anticipated that further investment to fund Regal's capital expenditure programme would take the form of shareholder loans. Smart has stated its intention to inject such further capital to enable the Company to continue work on the MEX-GOL and SV fields and to explore other options to acquire assets and grow production in Ukraine. In addition, the parent company of Energees has confirmed that they will provide financial support to Regal for at least the next twelve months while decisions are made as to the optimal longer term financing structure.

Regal believes that the experience of the Smart Holding Group as a whole, and its established track record of operating in Ukraine's natural resources sector, as well as its management with oil and gas expertise, will facilitate the efficient development of the Regal business. Smart and Regal are already exploring ways in which the operational expenses of Regal can be reduced.

The Board very much welcomes Smart's active involvement and support in helping the Company grow its operations and in fulfilling these ambitions.

Keith Henry
Chairman

History and Status of Discussions with Ministry of Environmental Protection

As announced on 28 June 2010, the Company received an order on 21 May 2010, but dated 30 March 2010, signed by the Ukrainian Minister of Environmental Protection identifying certain matters requiring rectification in relation to Regal's compliance with certain legislation in Ukraine relating to its operations at its MEX-GOL and SV gas and condensate fields (the "Ministry Order"). The Ministry Order also required a suspension of operations whilst such matters were rectified. On 2 July 2010, the Company received notification of an injunction order made by the District Administrative Court of Kiev suspending the Ministry Order pending a further hearing of the action in the District Administrative Court of Kiev. This action, challenging the Ministry Order, was brought by OJSC Ukrzakordongeologia (the Company's sole gas customer under a long term gas offtake agreement) against the Ministry of Environmental Protection. On 9 August 2010, the District Administrative Court of Kiev ruled that Regal should be substituted as the claimant in the action brought by OJSC Ukrzakordongeologia. On 11 October 2010, the District Administrative Court of Kiev found in favour of the Ministry of Environmental Protection in the action. On 18 October 2010, the Company filed an appeal of this ruling. A hearing of this appeal was held on 1 December 2010 in the Administrative Court of Appeal in Kiev, at which the Court ruled in favour of the Ministry of Environmental Protection. The Company's MEX-GOL and SV fields in Ukraine were shut in on 17 November 2010. A further hearing of the legal proceedings was held on 7 June 2011. As at the time of writing, no decision has been forthcoming following this hearing.

During the period since it received notice of the Ministry Order on 21 May 2010, the Company has engaged in dialogue with the Ukrainian Government and the Ministry of Environmental Protection regarding the Ministry Order with a view to fully resolving the issues raised by the Ministry Order following the Ministry's own standard legislative procedures. During this period the Company has provided certain clarifications and, where appropriate, implemented required actions. On 8 October 2010, the Ministry of Environmental Protection carried out further inspections of the Company's operations, which resulted in written confirmation that all matters referable to the Ministry Order had been rectified and eliminated. However, despite receiving such confirmation and despite the expectation, therefore, that this would lead to the matter being resolved expeditiously, to date the Company has not received a definitive timeframe from the Ukrainian Authorities to bring this matter to a conclusion.

Following the partial acquisition of Regal by Energiees, additional support has been provided in attempting to address the issues raised in the Ministry Order.

Review of Operations



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.

Asset overview

Ukraine

The Ukrainian licences are the Company's primary assets. A large gas and condensate field, comprising a series of stratigraphically trapped, paleo-deltaic sand reservoirs, extends under two neighbouring production licences over a combined area of 269 km², approximately 200 km east of Kiev. These licences are known as the MEX-GOL and SV fields (100% Regal owned) and the interests are operated and managed by the Company 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, prior to Regal's involvement. Only limited investment had been made in developing the assets by these companies resulting in limited 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, with five extending just into the upper T-Sands. Following the acquisition of 3D seismic data and its interpretation in 2008, the lateral extent of the B- and T-Sands was defined and underlying D-Sands became apparent. Deep, new-generation wells using top-drive rigs were spud in 2009 with a drilling programme designed to target production from the B-Sands reservoirs, and also to appraise the deeper T and D-Sands deposits. This programme continued into 2010, but in so doing, the development of these deposits proved to be far more technically challenging than initially thought.

In May 2010, an updated reserves report, prepared by Ryder Scott, was published revealing estimated 2P reserves of 151 MMboe.

Review of Operations continued

Production

Following the suspension of production on 17 November 2010, the MEX-GOL and SV fields have been shut-in. The Company's average production in the calendar year up to this date was 256,940 m³/d (9.07 MMcf/d) of gas and 53.5 m³/d of condensate, which equates to a combined total oil equivalent of 1,942 boepd. This represents an approximate 58% increase compared with the average production in 2009 which was 163,982 m³/d (5.79 MMcf/d) of gas and 42.5 m³/d of condensate, which equated to a combined total oil equivalent of 1,232 boepd.

Operations

For the field development Regal contracted two new top-drive 2,000 hp Lewco rigs from Saipem SpA in 2008 on a five year contractual basis and the first of the new-generation deep gas and condensate production wells, MEX-106 and SV-58, were completed in 2009. During 2010, the Company completed a further four wells and worked over MEX-106 and SV-58 following initially disappointing test rates. MEX-103, being the last well drilled using the previously deployed rigs, was also worked over.

The plan had been to drill all wells to produce from the B-Sand target reservoirs and also to appraise the deeper T- and D-Sand potential. MEX-106 and SV-58 were drilled to over 6,000m depth. However, as a result of operational complexities and difficulties, with the resulting cost implications, a decision was taken during the drilling of SV-61 and SV-66 to curtail these wells and focus on production from the shallower B-Sand reservoirs (depth range 4,800 to 5,300m). The two further wells, MEX-120 and SV-69, were redesigned and only drilled to the B-Sand.

MEX-106 Well

This was the first of Regal's new generation wells and was drilled to a depth of 6,020 metres in 2009 initially producing a stable rate of approximately 75,000 m³/d (2.6 MMcf/d) of gas and 12 m³/d (75 boepd) of condensate (521 boepd in aggregate) from the B-Sand. Production continued at these approximate levels into 2010. However, a mechanical obstruction ("fish") at 5,201 metres prevented testing of the T-Sand. A field operation using coiled tubing during 2010 recovered a total of 8m of the "fish", leaving a residual 3m section still lodged. Despite a subsequent work-over intervention, MEX-106 tested no gas from the D-Sands although logging confirmed a gas contribution from the T-Sands.

SV-58 Well

The initial rate of production from SV-58, in January 2010, was less than 10,000 m³/d. As a result of a number of additional well interventions in which the abrasive jet perforation technique was trialled, stabilised production was achieved by 1 April 2010, with 114,320 m³/d gas and 20 m³/d condensate (800 boepd). All production was from the B-Sands.

SV-61 Well

A work-over intervention on SV-61 was conducted in order to investigate and repair a number of mechanical issues identified in the well, which are believed to have prevented the well from producing. The lifting of this well using coiled tubing was put on hold following the suspension of production from the field on 17 November 2010.

SV-66 Well

The well was initially tested on 4 June 2010 at a maximum rate of 445,800m³/d of gas and 6.2 m³/d of condensate (2,821 boepd) with a flowing tubing head pressure of 2,058 psi on a 19.5mm choke. The well appeared to stabilise at around 221,760m³/d of gas and 1.4 m³/d of condensate (1,392 boepd) at 2,400 psi., but then quickly declined further. A coiled-tubing intervention to remove an obstruction at the base of the production tubing was completed in September 2010 and production, entirely from the B-Sands, was tested on 26 September 2010 at a rate of 39,140 m³/d gas and 0.3 m³/d condensate (246 boepd).

SV-69 Well

The well reached planned depth of 5,420 metres on 29 September 2010. Gas shows were observed whilst drilling through the B21, Lower B22 and B23 B-Sand intervals, and a gamma-ray log confirmed the presence of the target sands within the B21 sequence. However, whilst pulling out of the hole to run the full open-hole log suite, the bottom hole assembly became stuck. Several attempts were made to retrieve the assembly, but, owing to hole stability problems and equipment failures, these attempts were unsuccessful. Accordingly the well was plugged back for a side track at a later stage and suspended.



MEX-120 Well

The well was completed in the B-Sand sequence (B-22 and B-23 reservoirs) and, after testing, was hooked up to the gas processing plant. Production rates have shown a decreasing trend that was struggling to stabilise; a well test on 22 September 2010 recorded a flow of 10,700 m³/d gas and 0.6 m³/d condensate (78 boepd).

All drilling, workover and further work ceased following the suspension of operations on 17 November 2010. Clearly, the results up to this point were mixed and, for the most part, disappointing. Against the backdrop of Regal's licences in Ukraine being challenged, Regal initiated a strategic review. The review concluded that the development of the Company's Ukrainian asset required further technical studies to evaluate the reservoir potential and any impact on the Company's reserves estimate, as well as to determine how much investment capital would be required to fund future development. In the event that the proposed technical studies and the subsequent trials of alternative completion technologies, such as hydraulic fracturing, were to prove unsuccessful in improving well productivity, Regal considers it likely that its current published reserves would be revised downwards, both in terms of quantum and category. In the meantime, the Ryder Scott 2P estimate remains the Company's best assessment of commercial reserves.

Review of Operations continued

Romania

During 2010, Regal held two exploration licences in Romania — Barlad (100%) and Suceava (50%). In the Barlad block, 104.7 km of 2D seismic was acquired between November 2009 and early January 2010 and the RBNE-1 well was drilled in August 2010, to further appraise the 2007 RBN-4 discovery. The well was drilled to a total depth of 980 metres and penetrated the two sandstone targets. Despite encouraging gas shows during drilling, the well did not flow gas on test.

Approval was secured from the Government of Romania to extend the concession agreement by 2½ years from 1 September 2010 until 1 March 2013. On 29 September 2010, the Company entered into a conditional sale and purchase agreement with Chevron for the sale of the Barlad concession to Chevron for a cash consideration of \$25 million (excluding VAT and before taxes). The Company successfully concluded this sale on 14 February 2011.

The Suceava partnership, in which Regal holds a non-operated 50% interest, drilled well Climauti-1 in the Suceava Block in June 2010. The well was a gas discovery in Sarmatian reservoirs at around 460m and it is estimated should yield approximately 2 bcf gross of recoverable gas reserves. The well was tied into the Bilca gas plant and came on stream on 4 March 2011 with a daily production rate of 30,000 m³/day. This asset is also intended for divestment.

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 East Ras Budran Corporation LDC (“Apache”) as operator. Exploration and appraisal work has continued at the concession although the overall level of activity and financial exposure has been relatively low this year with the only exception a well planned toward the end of 2010. This concession is not considered to be a core asset. Apache indicated a desire for a 100 per cent ownership of the concession and as a result Regal entered into a sale and purchase agreement with Apache in January 2011 under which Regal agreed to the sale of its interest in the East Ras Budran concession for a consideration of \$1.1 million subject to working capital adjustments under the joint venture between Regal and Apache, which will result in net receipts to Regal of approximately \$0.6 million at closing of the sale.

The sale and purchase agreement is subject to approval from the Egyptian Government, but owing to the regional political events in early 2011, such approval is still awaited.

Finance Review



Overview

Regal's main assets are its production licences in the Ukraine. The economic basis for the business plan that has been pursued over the last three years has been focussed on bringing modern technology into the country. This was intended to enable rapid drilling of production wells to the point at which operational cash flows would ultimately sustain continued development capital expenditure whilst delivering a return on the investment. However, during 2010 it became apparent that the field was geologically and technically more challenging than had been anticipated. This meant that anticipated revenue from production was both below expectations and delivered later than planned. It also meant that the time spent attempting to rectify the operational issues resulted in higher than anticipated drilling costs.

Given these technical challenges, which were compounded by the regulatory difficulties faced by the Company, the key financial objective as the year developed was to ensure not only the survival of Regal whilst resolving these matters, but also to secure the basis for the Company's subsequent future funding and growth.

The suspension of operations in Ukraine on 17 November 2010, resulting in the stemming of operational cash flow, exacerbated the need to find a resolution. This included reviewing the balance sheet in order to mitigate, where possible, significant liabilities and to realise value from assets held so as to provide liquidity and ensure a stronger financial position during this period. Consequently, Regal entered into the settlement with Saipem for the curtailment of its long term contractual liabilities with regard to the two rigs; it agreed the disposal of the Company's Barlad concession in Romania to Chevron; it negotiated to sell its East Ras Budran concession in Egypt to Apache; it reduced staff and operational overheads; and commenced disposal of certain high-value items of stock that would no longer be utilised.

On 25 November 2010 the Company announced that it had received a number of approaches in relation to a potential offer for the Company and as part of its strategic review entered into negotiations with several parties regarding potential corporate options. This resulted in the offer in December 2010 by Energiees and subsequently the increased partial cash offer by Energiees which was announced on 7 February 2011. On 4 March 2011, it was announced that the Energiees increased partial cash offer was closed in respect of 54% of Regal's shares not owned by Energiees or persons acting in concert with Energiees. With the support of Smart, the Directors believe that Regal now stands in a strengthened position. However, until such time as the Ministry Order is lifted and the Company can resume production, there is a significant uncertainty with regard to the value and future of its Ukrainian licences. The audit opinion, whilst not qualified, therefore contains emphasis of matter paragraphs in relation to the current status of legal proceedings in Ukraine and the resultant potential impact on the financial position of the Company.

Operational Performance

Operational revenue is derived from Ukrainian gas and condensate sales. Despite the issues outlined above and the production having been shut in since 17 November 2010, revenue for 2010, at \$29.0 million, is up 46% on the previous year. Whilst this is partly a result of higher sales prices (gas averaged \$256/Mm³ and condensate \$74/bbl), gas and condensate sale volumes were up 38% and 14%, respectively, on 2009. This is reflected in the cash generated from operating activities which, at \$13.0 million, is almost double that of the previous year. However, owing to the circumstances that arose during the year and other decisions taken, a number of large, one-off charges were made to the income statement resulting in an operating loss for the period of \$32.9 million, compared to \$9.1 million for 2009. The more significant of these charges are detailed below.

Finance Review continued

Cost of sales includes a charge of \$3.7 million for the write down of inventory following the decision to terminate the drilling contract with Saipem. This reflects the fact that certain inventory items were specific to the drilling rigs that had been utilised.

Impairments on the intangible fixed assets carrying value of the Suceava (Romania) and East Ras Budran (Egypt) concessions, totalling \$15.3 million, reflect the actual or likely realisable values on their disposal. Conversely, the pre-tax gain of \$13.3 million made on the disposal to Chevron of the Barlad (Romania) concession has not been included and will be taken to the income statement in 2011, as the transaction became unconditional after the balance sheet date, although the related assets and liabilities are classified as held for sale in the balance sheet.

Termination of the drilling contracts resulted in a settlement of \$8.1 million and a further charge of \$11.9 million was made for the release of all other liabilities and securities to Saipem. After taking into consideration associated purchase tax recoverable of \$1.3 million, this resulted in a net charge of \$18.7 million included within administration expenses.

Finance charges for the year include a \$4.2 million expense (2009: \$nil) required in order to record certain long-term purchase tax balances recoverable from the Ukraine Government at their net present value.

Capital expenditure in 2010 totalled \$86.5 million, of which \$82.7 million was incurred in Ukraine. The vast majority of the latter related to drilling and work-overs, including associated overheads and support. Capital expenditure in Romania of \$3.5 million included \$1.5 million for the drilling of the RBNE-1 well on the Barlad concession prior to approval of its licence extension and onward sale to Chevron.

Cash and cash equivalents totalling \$23.3 million was held on 31 December 2010, but included \$13.1 million of restricted cash held as security against letters of credit. Cash held on 16 June 2011 totalled \$13.8 million, of which \$12.6 million was free of encumbrances. Regal manages its treasury function by forecasting its 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 placed on varying term deposits so as to optimise interest income, although interest rates achievable from major banks of high quality credit rating have been markedly poorer in the wake of the financial crisis. The foreign exchange loss of \$2.3 million arises predominantly from the translation of items held in foreign currencies to the US \$ reporting currency of the financial statements.

Robert Wilde
Finance Director

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.

Clearly, as detailed in the Chairman's Statement, and in the Reviews, the major risk the Company currently faces is not being able to reach a favourable outcome in respect of the Ministry Order, which should then be followed by the successful resumption of production, the receipt of revenues from sales and, hence, the generation of operational cash. Assuming a favourable outcome is achieved, the key risks recognised are detailed below.

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 Company needs to adapt and alter itself, as needed, relatively quickly.

The Ukrainian Government is keen to develop the country's domestic production of hydrocarbons since Ukraine imports the majority of its gas needs from Russia. Whilst this should put Regal in a well-placed position, as experienced in 2010 and continues to be demonstrated, there is a risk to Regal's operations in the country. It is hoped the involvement of Energees as a major shareholder, with strong interests in Ukraine, will help mitigate such risks in the future.

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. With the disposal of its Barlad asset the Company has limited continuing operations in Romania.

Subject to receipt of the Egyptian Government's approval to the pending disposal of its East Ras Budran asset to Apache the Company does not believe it will have future exposure in Egypt.

Ukraine Production Licences

The Company operates in a region where, as seen during the past year, the right to production can be challenged by state and non-state parties. During 2010, this manifested itself in the form of a Ministry Order instructing Regal to suspend all operations and production from its Ukrainian licences. Whilst the Company is currently addressing this issue with the hope of a positive resolution, the environment is such that a challenge may arise at any time in the future from licence history or compliance with licence commitments. The Company endeavours to ensure compliance with commitments via Company procedures and control or, where this is not immediately feasible for practical or logistical considerations, seeks to enter into dialogue with the relevant Government bodies with a view to agreeing a reasonable timeframe for achieving compliance or an alternative, mutually agreeable course of action.

Operating Environment, Principal Risks and Uncertainties *continued*

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 2010. Although the financial markets have settled somewhat from the turmoil of late 2008, liquidity in the banking and investment arenas remains tight. 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 Company may be exposed to increased counterparty risk as a result of business failures in the countries in which it operates and will continue to be exposed if counterparties fail or are unable to meet their obligations to the Company. The precise nature of all the risks and uncertainties the Company faces as a result of these risks cannot be predicted and many of these are outside of the Company's control.

Currency risk

The Company's main activities are i) investment into the development of the Company's Ukrainian gas and condensate assets; ii) the production and sale of gas, 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.

The Company receives sales proceeds in Hryvnia and as such it is exposed to volatility 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

When on production, the Company derives its revenue from the sale of Ukrainian gas and condensate. These revenues are subject to oil price volatility and political influence. A prolonged period of low oil or gas prices may impact the Company'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 Company's revenues on a per unit basis, but may also reduce the amount of gas and condensate that the Company 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 August 2010 with the gas price cap rising to \$277/Mm³ from \$252/Mm³ in earlier 2010. However, recent political pressures may to some degree mitigate the size of any anticipated future rises, particularly in the short-term.

The overall economics of the Company's key asset (being the net present value of the future cash flows from the Ukrainian project) are far more sensitive to long term oil (and hence gas) 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 Company, production and, therefore, the Company's cash flow and income are highly dependent on the Company's success in efficiently developing and exploiting any reserves and finding or acquiring additional reserves. The Company may not be able to develop, find or acquire reserves at acceptable costs. The experience gained from drilling undertaken to date highlights such risk profile as Regal targets the appraisal of these hydrocarbons.

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 Company'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 Company does not currently have any outstanding loans. When in production in Ukraine, most of the Company's gas is paid for monthly in advance. Trade receivables and risk of non-payment are, therefore, not particularly significant at present. Internal financial projections are regularly made based on the latest estimates available and various scenarios to assess the robustness of the liquidity of the Company are run. The Company currently holds sufficient cash for the anticipated short term needs of the business. The longer term is dependent on a successful resolution to the Ministry Order and the consequential resumption of production. In the meantime, Smart has stated its intention to provide support for the Company to continue to meet its obligations as they fall due for the foreseeable future.

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 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.

Board of Directors

Keith Henry

Chairman and acting
Chief Executive Officer

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 plc, Brown & Root Limited and Kvaerner Engineering and Construction Limited. Keith also held the roles of Non-Executive Chairman at Burren Energy plc and of Non-Executive Director at First Calgary Petroleum Ltd. 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 plc. He is currently Chairman of Heliuss Energy plc, and the senior Director of Sterling Energy plc. 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.

Denis Rudev

Executive Director

Denis joined the Board in April 2011 after the successful completion of the cash offer to shareholders of Regal by Energiees Management Limited. He joins Regal having experience in investment banking with Morgan Stanley & Co Eastern European team, Severstal Group as Head of the Strategy Department, Strategy & Corporate Development, Mining Division and McKinsey & Co. Denis is currently a Director of Energiees Management and First Deputy Chief Executive Officer for Finance of JSC Smart and holds a MA (Finance) and a BA in Economics from Plekhanov Academy of Economics, Russia.

Robert Wilde

Finance Director

Robert has over 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.

Dr Alastair Macleod 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, VP of OAO Sidanco in Russia, leader of BP's Southern North Sea gas production business, VP 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.

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 on KazakhGold Group. He holds an MA (Econ) from Cambridge University and an MSc (MBA) from the London Business School.

Alexey Pertin

Non-Executive Director

Alexey joined Regal in April 2011 after the successful completion of the cash offer to shareholders of Regal by Energiees Management Limited. He is currently a Director of Energiees Investments and Energiees Management and is the Chief Executive Officer of JSC Smart as well as holding Director positions with Adeona Holdings, Smart Holding, Legolas, Metinvest Holding UA and JSC Moldova Steel Works. Previous positions held include CEO of Severstal Emal, and Deputy CEO for Business Development for the Severstal Group. Alexey holds an MBA from Newcastle Business School in Northumbria, England.

Alexey Timofeyev

Non-Executive Director

Alexey joined Regal in March 2011 after the successful completion of the cash offer to shareholders of Regal by Energiees Management Limited. Prior to joining Regal and the Smart Holding Group, Alexey held positions at SJSC Naftogaz Ukrainy (the Ukrainian state oil and gas Company), Concern Geo-Alliance UA and SC Ukgazvydobuvannya, a subsidiary of SJSC Naftogaz Ukrainy. He is currently First Deputy Chief Executive Officer for Corporate Development and Asset Management of JSC Smart. Alexey holds a degree in International Economic Relations.

Corporate Governance Statement

Companies on the Alternative Investment Market of the London Stock Exchange are not required to comply with the 2008 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 2008 Combined Code on Corporate Governance, so far as is practicable.

The Board

The Board of the Company consists of a Chairman, two Executive Directors and four 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.

At the date of this report, no Directors have interests in the ordinary shares of the Company.

Remuneration Committee

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

The Remuneration Committee presently comprises: Alastair Graham (chairman), Keith Henry and Adrian Coates.

Audit Committee

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

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

The Audit Committee presently comprises: Adrian Coates (chairman), Keith Henry and Alastair Graham.

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 2010 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 ninth 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 2010.

As announced on 8 June 2011, the Directors have changed the accounting reference date to 30 December although, as allowed by the Companies Act 2006, the financial statements are still drawn up as of 31 December.

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 15 to the financial statements.

Proposed Dividend

The Directors do not recommend the payment of a dividend (2009: \$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 27 for the Company (2009: 40 for Group and 28 for the 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, Review of Operations and the Finance review.

Capital Structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in Note 24. 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 24.

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.

The capital structure of the Company was significantly impacted by the post year end transaction with Energiees Management Limited as discussed in Note 31.

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 Chairman's statement. The financial position of the Group, its cash flows and liquidity position are described in the Finance Review. In addition, Note 28 to the financial statements includes the Group's objectives and strategies for managing its capital, details of its financial instruments and its exposures to currency, interest rate and liquidity risk.

The Group is subject to a Ministry Order received on 21 May 2010 relating to the Group's oil and gas licences in the Ukraine. If this is not lifted, the Group is likely to require additional sources of finance within the next 12 months in order to be able to continue trading. However, the Company has obtained a letter of support from Energiees Investments Limited, the ultimate controlling party of the Group. This letter includes an irrevocable undertaking that Energiees Investments Limited will provide such financial support as the Company and its subsidiaries may require in order to enable them to meet their liabilities for a period of not less than 12 months from the date of approval of these financial statements.

Having taken independent legal advice and considered the ability of Energiees Investments Limited to provide any necessary funding, the Directors of the Company believe it is appropriate to place reliance on this letter of support in making their assessment as to the applicability of the going concern basis of accounting. In addition to the above, the Smart Holdings Group (a fellow subsidiary of Energiees Investments Limited) have stated that they have embarked on a long term strategy to become a leading diversified natural resources company in the Ukraine and the Directors understand that it is intended for Regal to become a platform within this strategy.

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

Post Balance Sheet Events

Post balance sheet events are described in Note 31 to the financial statements.

Directors' Report continued

Directors and Directors' Interests

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

	Date appointed	Date resigned
K Henry	—	—
D J Greer	—	29 September 2010
H Verkuil	—	21 April 2011
R Wilde	—	—
A Coates	—	—
A Graham	14 January 2010	—
A Timofeyev	28 March 2011	—
A Pertin	1 April 2011	—
D Rudev	1 April 2011	—
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
K Henry	Ordinary	50,000	150,000	—
A Coates	Ordinary	30,578	77,245	—
H Verkuil	Ordinary	—	230,000	—
R Wilde	Ordinary	—	120,000	—

Between the year end and the date of this report, changes in the interests of Directors are due to the sale of shares pursuant to the recommended partial cash offer made by Energie Management Limited for up to 224,446,485 ordinary shares of 5 pence each in the capital of the Company.

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 7.

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 17 June 2011 the Company had been notified of the following interests of 3 per cent or more in its issued share capital:

Substantial Shareholder	Number of shares	Percentage of issued ordinary share capital
Energiees Management Limited*	173,128,587	54.00%
Pope Asset Management, LLC	24,204,574	7.55%
PRIF Services Limited and Pilgrim Pacific Strategy Fund Limited	23,998,529	7.48%
VTB Bank OJSC	23,118,529	7.21%
Renaissance Securities (Cyprus) Limited	20,092,251	6.27%
Investohills	16,433,516	5.13%

* Energiees Management Limited is 100 per cent owned by Energiees Investments Limited, which is jointly controlled by Mr V Novinskiy and Mr A Klyamko.

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, International Accounting Standard 1 requires that Directors:

- 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, Review of Operations 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.

Political and Charitable Contributions

During the year the Group made no charitable donations (2009: \$nil) and no political contributions (2009: \$nil).

Directors' Report continued

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

17 June 2011

Independent Auditor's Report to the Members of Regal Petroleum plc

We have audited the financial statements of Regal Petroleum Plc for the year ended 31 December 2010 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 31. 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.

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 auditor's 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 auditor

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 and express an opinion on 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 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 2010 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 provision 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 matter 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.

Independent Auditors' Report to the Members of Regal Petroleum plc continued

Emphasis of matter — possible outcome of legal proceedings

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in Note 2(a) to the consolidated financial statements concerning the current status of legal proceedings in respect of the Group's licences in Ukraine. As stated in Note 2(a) to the consolidated financial statements, the Group received an order on 21 May 2010, dated 30 March 2010, signed by the Ukrainian Minister of Environmental Protection, identifying certain matters requiring rectification in relation to the Group's compliance with certain legislation in Ukraine and requiring a suspension of operations whilst such matters were rectified (the "Ministry Order"). As a result of the Ministry Order, the Group has not generated any revenues since November 2010. Legal proceedings were issued challenging the validity of the Ministry Order and these are still ongoing. However, the Ministry Order remains in place at the date of this report and there is significant uncertainty over the ultimate outcome of the legal proceedings referred to above. If the Courts in Ukraine do not lift the Ministry Order, the Group would be required to impair the value of its Exploration, Development and Production assets in Ukraine as well as certain related purchase tax receivables, with associated net book values at 31 December 2010 of \$229.2 million and \$20.9 million respectively. Any impairment of these assets would also require adjustments to be made to the related deferred tax liability position of the group, at a tax rate of 27%. In addition to the potential impact on the Group's financial position, if the Ministry Order is not lifted the Parent Company would also be required to impair certain investments as well as certain loans and other amounts owed by Group undertakings, the net book value of which at 31 December 2010 was \$17.3 million and \$222.7 million respectively.

Even if the Ministry Order is ultimately lifted, the Group may be subject to material fines and penalties for all or some of the period it continued to produce gas and condensate while the Ministry Order was in place. No provision for impairment or for fines and penalties has been made in the consolidated financial statements on the basis that the directors believe that, notwithstanding the significant uncertainties referred to above, the Ministry Order will ultimately be lifted and there is no reliable basis for making a provision for any fines and penalties that may ultimately be imposed.

David Paterson (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
17 June 2011

Consolidated Income Statement

for the year ended 31 December 2010

	Note	2010 \$000	2009 \$000
Revenue	3	29,033	19,872
Cost of sales		(13,454)	(6,230)
Gross profit		15,579	13,642
Share-based charge	24	(2,687)	(7,618)
Other administrative expenses	4	(30,490)	(15,068)
Total administrative expenses		(33,177)	(22,686)
Other operating expenses: exploration costs written off	13	—	(95)
impairment of intangible fixed assets	5	(15,304)	—
Operating loss		(32,902)	(9,139)
Investment revenue	3	414	939
Finance costs	9	(4,445)	(144)
Other net gains and (losses)	6	(2,326)	1,514
Loss on ordinary activities before taxation	4	(39,259)	(6,830)
Income tax charge	10	(1,317)	(2,989)
Loss on ordinary activities after taxation		(40,576)	(9,819)
Loss per ordinary share (cents)			
Basic and diluted	12	(12.8c)	(3.7c)

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 2010

	2010 \$000	2009 \$000
Equity — foreign currency translation	(1,740)	(627)
Net expense recognised directly in equity	(1,740)	(627)
Loss for the year	(40,576)	(9,819)
Total comprehensive loss for the year	(42,316)	(10,446)

Company Statement of Comprehensive Income

for the year ended 31 December 2010

	2010 \$000	2009 \$000
Loss for the year	(41,941)	(13,194)
Total comprehensive loss for the year	(41,941)	(13,194)

Consolidated Balance Sheet

at 31 December 2010

	Note	2010 \$000	2009 \$000
Assets			
Non-current assets			
Intangible assets	13	2,347	27,067
Property, plant and equipment	14	229,675	151,492
Trade and other receivables	18	18,112	3,593
		250,134	182,152
Current assets			
Inventories	17	9,689	20,066
Assets classified as held for sale	16	11,202	—
Trade and other receivables	18	6,376	16,752
Other financial assets	19	1,547	—
Cash and cash equivalents	19	23,265	118,592
		52,079	155,410
Total assets		302,213	337,562
Liabilities			
Current liabilities			
Trade and other payables	20	(24,982)	(23,489)
Liabilities directly associated with assets held for sale	16	(125)	—
		(25,107)	(23,489)
Net current assets		26,972	131,921
Non-current liabilities			
Trade and other payables	21	(21)	(41)
Provisions	22	(5,885)	(3,878)
Deferred tax	23	(6,345)	(5,892)
		(12,251)	(9,811)
Total liabilities		(37,358)	(33,300)
Net assets		264,855	304,262
Equity			
Called up share capital	24	27,932	27,710
Share premium account		555,090	555,090
Other reserves	25	15,617	23,772
Retained deficit		(333,784)	(302,310)
Total equity		264,855	304,262

The financial statements of Regal Petroleum plc, company number 4462555, were approved by the Board of Directors and authorised for issue on 17 June 2011. They were signed on its behalf by:

Robert Wilde
Director

Consolidated Statement of Changes in Equity

at 31 December 2010

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

	Share capital \$000	Share premium account \$000	Equity share option reserve \$000	Merger reserve \$000	Capital contributions \$000	Foreign exchange reserve \$000	Retained deficit \$000	Total \$000
At 1 January 2010	27,710	555,090	17,591	(3,204)	7,477	1,908	(302,310)	304,262
Retained loss for the year	—	—	—	—	—	—	(40,576)	(40,576)
Current year IFRS 2 charge	—	—	2,687	—	—	—	—	2,687
Exchange differences	—	—	—	—	—	(1,740)	—	(1,740)
Transfer for options exercised or expired	222	—	(9,102)	—	—	—	9,102	222
At 31 December 2010	27,932	555,090	11,176	(3,204)	7,477	168	(333,784)	264,855

Consolidated Cash Flow Statement

for the year ended 31 December 2010

	Note	2010 \$000	2009 \$000
Operating activities			
Cash from operations	27	14,348	7,151
Interest paid		(38)	(144)
Taxation paid		(1,285)	(391)
Net cash from operating activities		13,025	6,616
Investing activities			
Purchase of property, plant and equipment		(78,436)	(67,356)
Increase in related purchase tax receivable		(11,192)	(15,040)
Purchase of intangible assets		(4,447)	(838)
Purchase of materials inventory		(11,151)	(16,107)
Proceeds from sale of property, plant and equipment		1	63
Net cash used in investing activities		(105,225)	(99,278)
Financing activities			
Proceeds from issue of shares	24	222	105,110
Payment of share issue costs	24	—	(3,653)
Interest received on surplus funds from share issue		420	1,063
Increase in other financial assets		(1,547)	—
Net cash (used in)/from financing activities		(905)	102,520
Net (decrease)/increase in cash and cash equivalents		(93,105)	9,858
Cash and cash equivalents at beginning of year		118,592	106,078
Effect of foreign exchange rate changes		(2,222)	2,656
Cash and cash equivalents at end of year	19	23,265	118,592

Company Balance Sheet

at 31 December 2010

	Note	2010 \$000	2009 \$000
Assets			
Non-current assets			
Intangible assets	13	91	151
Property, plant and equipment	14	145	81
Investments	15	17,279	17,279
Loans to Group undertakings	15	240,352	175,327
		257,867	192,838
Current assets			
Trade and other receivables	18	1,535	886
Other financial assets	19	1,547	—
Cash and cash equivalents	19	22,553	116,815
		25,635	117,701
Total assets		283,502	310,539
Liabilities			
Current liabilities			
Trade and other payables	20	(13,030)	(1,035)
Net current assets		12,605	116,666
Total liabilities		(13,030)	(1,035)
Net assets		270,472	309,504
Equity			
Called up share capital	24	27,932	27,710
Share premium account		555,090	555,090
Share option reserve		11,176	17,591
Retained deficit		(323,726)	(290,887)
Shareholders' funds		270,472	309,504

These financial statements were approved by the Board of Directors and authorised for issue on 17 June 2011. They were signed on its behalf by:

Robert Wilde

Director

Company Statement of Changes in Equity

at 31 December 2010

	Share capital \$000	Share premium account \$000	Equity share option reserve \$000	Retained deficit \$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

	Share capital \$000	Share premium account \$000	Equity share option reserve \$000	Retained deficit \$000	Total \$000
At 1 January 2010	27,710	555,090	17,591	(290,887)	309,504
Retained loss for the year	—	—	—	(41,941)	(41,941)
Current year IFRS 2 charge	—	—	2,687	—	2,687
Transfer for options exercised or expired	222	—	(9,102)	9,102	222
At 31 December 2010	27,932	555,090	11,176	(323,726)	270,472

Company Cash Flow Statement

for the year ended 31 December 2010

	Note	2010 \$000	2009 \$000
Operating activities			
Cash used in operations	27	(7,144)	(9,908)
Net cash used in operating activities			
Investing activities			
Purchase of property, plant and equipment		(117)	(41)
Investment in Group companies		(83,551)	(82,902)
Interest received from Group companies		—	2,394
Net cash used in investing activities			
Financing activities			
Proceeds from issue of shares	24	222	105,110
Payment of share issue costs	24	—	(3,653)
Interest received on surplus funds from share issue		399	1,043
Increase in other financial assets		(1,547)	—
Net cash (used in)/from financing activities			
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year			
Effect of foreign exchange rate changes		(2,524)	1,758
Cash and cash equivalents at end of year			
	19	22,553	116,815

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 and the provision of a letter of support from Energiee Investments Limited, the ultimate controlling party of the Group (see Note 31). The Directors' also understand that, whatever the outcome of the legal proceedings referred to in the History and Status of Discussions with Ministry of Environmental Protection section of the annual report, the Smart Holdings Group (a fellow subsidiary of Energiee Investments Limited) have stated that they have embarked on a long term strategy to become a leading diversified natural resources company in the Ukraine and the Directors understand that it is intended for Regal to become a platform within this strategy. Further details of this matter are provided in the Going Concern section of the Directors' Report.

Basis of Preparation

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.

- Amendment to IFRS 2 Share-based Payment

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.

- Amendment to IFRS 3 (2008) Business Combinations, IAS 27 (2008) Consolidated and Separate Financial Statements and IAS 28 (2008) Investments in Associates
- Amendment to IAS 17 Leases
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 17 Distributions of Non-cash Assets to Owners

1. Accounting Policies *continued*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's financial statements from 2011 or later periods, but the Group has not early adopted them.

■ IFRS 9	Financial Instruments
■ IFRS 10	Consolidated Financial Statements
■ IFRS 11	Joint Arrangements
■ IFRS 12	Disclosure of Interests in Other Entities
■ IFRS 13	Fair Value Measurement
■ IAS 24 (amended)	Related Party Disclosures
■ IAS 32 (amended)	Classification of Rights Issues
■ IFRIC 14 (amended)	Prepayment of a Minimum Funding Requirement
■ IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The Directors are still assessing the impact of the adoption of these Standards and Interpretations but do not currently believe they are likely 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.

Notes continued

forming part of the financial statements

1. Accounting Policies continued

Commercial Reserves

Proven and probable oil and gas reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs. The proven and probable reserves included herein conform to the definition approved by the 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.

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.

1. Accounting Policies continued

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

Non-Current Assets Held for Sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets (and disposal groups) are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

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.

Notes continued

forming part of the financial statements

1. Accounting Policies continued

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.

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.

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.

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.

1. Accounting Policies *continued*

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 time frame established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Impairment losses recognised in profit and loss for equity instruments classified as available-for-sale are not subsequently reversed through profit and loss.

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

Trade Payables

Trade payables are not interest bearing and are stated at their nominal value.

Bank Borrowings and Loan Notes

Interest-bearing bank borrowings and loan notes are recorded at the proceeds received, net of direct transaction costs. Direct transaction costs are accounted for on an amortised cost basis in profit and loss using the effective interest method and are added to/deducted from the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Notes continued

forming part of the financial statements

1. Accounting Policies continued

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.

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. Should the vesting period alter due to a change in circumstances that trigger early vesting for example, then the fair value is expensed over the remaining shorter period.

All share-based awards of the Group outstanding at 31 December 2010 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.

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.

2. 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.

(a) Recoverability of Exploration, Development and Production assets in Ukraine

The Group is currently involved in legal proceedings in respect of its licence interests in the Ukraine. On 21 May 2010, the Group received an order, dated 30 March 2010, signed by the Minister of Environmental Protection identifying certain matters requiring rectification in relation to Regal's compliance with certain legislation in Ukraine relating to its operations at its Mekhediviska Golotvshinska (MEX-GOL) and Svyrydivske (SV) gas and condensate fields in Ukraine which are valid until 2024, and requiring a suspension of operations whilst such matters were rectified (the "Ministry Order"). A summary of developments which have occurred subsequent to the receipt of the Ministry Order is included in the History and Status of Discussions with Ministry of Environmental Protection section of the annual report.

As of the date of these financial statements, Regal continues to challenge in the Ukraine Courts the validity of the original Ministry Order. However, there is significant uncertainty as to the ultimate outcome of these legal proceedings.

The Directors have considered the implications of IAS 36 "Impairment of assets" and have concluded that recognition of an impairment charge is not currently appropriate on the basis that the Directors believe that, notwithstanding the significant uncertainties referred to above, the issues surrounding the Ministry Order should ultimately be resolved and the suspension lifted. However, the ultimate outcome is uncertain and, if the Courts in Ukraine do not resolve in the Company's favour, the Group would be required to impair the value of its exploration, development and production assets in Ukraine. The carrying value of the Group's exploration, development and production assets in Ukraine in respect of these licences at 31 December 2010 was \$229.2 million and there is a related purchase tax receivable of \$20.9 million (of which \$2.8 million is classified as due in less than one year and the remaining \$18.1 million is classified as due in more than one year). Any impairment of these assets would also require adjustments to be made to the related deferred tax liability position of the Group, at a tax rate of 27 per cent.

In addition to the potential impact on the Group's financial position, if the Ministry Order is not lifted the Parent Company would also be required to impair certain investments as well as certain loans and other amounts owed by Group undertakings, the net book value of which at 31 December 2010 was \$17.3 million and \$222.7 million respectively.

Even if the Ministry Order is ultimately lifted, the Group may be subject to material fines and penalties for all or some of the period it continued to produce gas and condensate while the Ministry Order was in place. The Directors have considered the implications of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and have concluded that the recognition of a provision for this matter is not appropriate on the basis that no reliable estimate can be made as to the amount of the fines and penalties, if any, that may ultimately be imposed. In reaching this conclusion, the Directors have taken into consideration both the significant uncertainty surrounding the validity of the original Ministry Order and independent legal advice which indicates that there is no mechanism specified in Ukraine law for determining the amount of damages to be applied in such cases.

(b) 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. It also takes into consideration the extent to which any offers have been received from third parties which can be considered indicative of an asset's fair value. Note 5 provides a summary of impairment charges on such assets which arose in 2010.

Notes continued

forming part of the financial statements

2. Critical Accounting Estimates and Assumptions continued

(c) Recoverability of Inventories

Inventories held on the balance sheet primarily represent spare parts used in the Group's drilling operations in Ukraine. The curtailment of the drilling programme in the near term, particularly the cancellation of the Saipem contract during the year (see Note 20), has resulted in certain spare parts no longer being required by the Group in the foreseeable future and significant judgement has therefore been required in order to assess their net realisable value, including (but not limited to) offers received from third parties (see Note 17).

(d) 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 outcome of the Ministry Order, the costs and timing of any decommissioning works and the discount rate applied to such costs.

(e) 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.

(f) 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 24.

(g) Timing of recovery of purchase tax receivable

The Group has significant receivables from the State Budget of Ukraine relating to reimbursement of purchase tax arising on purchases of goods and services from external service and product providers.

The Group recognises recoverable purchase tax only to the extent that it is probable that the purchase tax payable arising on the sales of gas and condensate production will be sufficient to offset the purchase tax due from the State within a reasonable period. Estimating the recoverability, net present value and classification (current asset versus non current asset) of purchase tax receivable requires management to make an estimate of the timing of future revenues in order to calculate the amount and timing of the purchase tax payable available for offset. See Note 18 for further details.

3. Segmental Information

In line with the 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 Chief Operating Decision Maker within the Group.

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.

	Ukraine		United Kingdom		Romania		Egypt		Total	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Turnover										
Gas sales	21,086	14,589	—	—	—	—	—	—	21,086	14,589
Condensate sales	7,947	5,283	—	—	—	—	—	—	7,947	5,283
Total sales (incl. sales to third parties)	29,033	19,872	—	—	—	—	—	—	29,033	19,872
Impairment loss	—	—	—	—	(10,928)	—	(4,376)	—	(15,304)	—
Segment result	8,819	12,612	(18,491)*	(10,534)	(11,210)	(160)	(4,556)	(351)	(25,438)	1,567
Depreciation and amortisation									(4,777)	(3,088)
Share-based charge									(2,687)	(7,618)
Operating loss									(32,902)	(9,139)
Segment assets	260,602	191,236	26,992	118,109	13,514**	22,815	1,105	5,402	302,213	337,562
Capital additions	82,793	93,048	117	78	3,480	1,028	82	696	86,472	94,850

* Including \$11.9 million to release the Company from obligations and liabilities between Saipem and Regal (see Note 20).

** Including assets held for sale of \$11.2 million (see Note 16).

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 \$21,086,000 (2009: \$14,589,000) are with one single external party with which the Group has an agreement. Total of revenue generated from operating and interest revenue is \$29,447,000 (2009: \$20,811,000).

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4. Loss on Ordinary Activities Before Taxation

	2010 \$000	2009 \$000
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration (see below)	466	328
Depreciation	4,711	2,998
Amortisation of intangible assets	66	90
Impairment of intangible assets	15,304	—
Production based taxes	2,883	1,865
Cost of inventories recognised as an expense	837	460
Write downs of inventories recognised as an expense	3,667	—
Staff costs	10,100	15,181
Contract settlement charges (refer Note 20)	18,663	—
	2010 \$000	2009 \$000
Audit services:		
Fees payable to the Company's Auditors for the audit of the Parent Company and Consolidated accounts	177	196
Fees payable to the Company's Auditors and their associates for the audit of the Company's subsidiaries pursuant to legislation	52	41
	229	237
Other services:		
Other services pursuant to legislation — interim review	55	56
Other services relating to taxation	79	35
Other services	103	—
	237	91
Total audit and other services	466	328

All amounts shown as Auditors' remuneration were payable to Deloitte LLP and other member firms of Deloitte Touche Tohmatsu Limited.

5. Impairment of Intangible Fixed Assets

	2010 \$000	2009 \$000
Impairment of Suceava concession in Romania	10,928	—
Impairment of East Ras Budran Concession in Egypt	4,376	—
	15,304	—

In accordance with the Group's accounting policies, a review has been performed on the carrying amount of the Group's exploration and evaluation assets to determine whether there is any indication that those assets have suffered an impairment loss. This review has led to impairment charges in respect of the Group's Suceava concession in Romania and East Ras Budran concession in Egypt.

5. Impairment of Intangible Fixed Assets *continued*

In January 2011 the Company announced that it had entered into a conditional sale and purchase agreement to dispose of its 25 per cent non-operated interest in the East Ras Budran concession in Egypt for \$1,100,000. The sale is subject to the approval of the Egyptian Government which is expected to take some months to obtain due to recent political developments in that country. The Directors believe that the sale price is the best indication of the asset's recoverable amount, triggering an impairment charge of \$4,376,000.

The Group's 50 per cent interest in the Suceava concession in Romania has been impaired to a value of \$1,126,000. During the year, there was drilling success on one well within the concession (Climauti-1) but this was not sufficient to support the concession's carrying value and in addition, subsequent to year end, the Group has decided to divest of their interest in the concession. An impairment charge of \$10.9 million has therefore been recorded in order to reduce its carrying value to the latest estimate of its fair value (less costs to sell), which in turn is based on an estimate of the net present value of the reserves of the Climauti-1 discovery .

6. Other Net Gains and (Losses)

	2010 \$000	2009 \$000
Unrealised foreign exchange (losses)/gains	(637)	914
Realised foreign exchange (losses)/gains	(1,689)	600
	(2,326)	1,514

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.

7. Remuneration of Directors

	2010 \$000	2009 \$000
Directors' emoluments	1,944	2,151

The emoluments of the individual Directors were as follows:

	Basic salary and fees 2010 \$000	Bonus 2010 \$000	Benefits in kind 2010 \$000	Aggregate emoluments 2010 \$000	Pension contributions 2010 \$000	Total emoluments 2010 \$000	Total emoluments 2009 \$000
K Henry	213	31	—	244	—	244	156
D J Greer	594	—	5	599	66	665	751
H Verkuil	348	73	18	439	45	484	488
R Wilde	294	73	18	385	44	429	462
Lord St John of Bletso	—	—	—	—	—	—	116
A Mozetic	—	—	—	—	—	—	115
A Coates	62	—	—	62	—	62	63
A Graham	60	—	—	60	—	60	—
	1,571	177	41	1,789	155	1,944	2,151

Included in the above is compensation in respect of loss of office to DJ Greer of \$231,870.

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7. Remuneration of Directors *continued*

Aggregate emoluments disclosed above does not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by Directors (2009: nil). Details of the options exercised during the year are as follows:

	Number of options	Exercise price (£)	Market price at exercise date (£)	Gain on exercise (\$)
K Henry	141,667	0.05	0.7875	161,504
D J Greer	800,000	0.05	0.7875	912,022
H Verkuil	459,375	0.05	0.7875	523,700
R Wilde	309,375	0.05	0.7875	352,696
A Coates	46,667	0.05	0.7875	53,202

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 during the financial year. Outstanding options as at 31 December 2010 are listed below:

	Number of options	Exercise price (£)
K Henry	283,334	0.05
H Verkuil	383,750	0.05
R Wilde	533,750	0.05
A Coates	93,334	0.05

These options vested and were exercised pursuant to the recommended partial cash offer made by Energiees Management Limited during 2011.

8. Staff Numbers and Costs

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

Group	Number of employees	
	2010	2009
Management/operational	126	116
Administrative support	42	43
	169	159

The aggregate staff costs of these employees were as follows:

	2010 \$000	2009 \$000
Wages and salaries	5,722	5,706
Social security costs	675	964
Pension costs	1,016	893
Share option charge (see Note 24)	2,687	7,618
	10,100	15,181

8. Staff Numbers and Costs *continued*

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.

9. Finance Costs

	2010	2009
	\$000	\$000
Interest on obligations under finance leases	38	47
Unwinding of discount on decommissioning provision	159	97
Discounting adjustment on other long term receivables (see Note 18)	4,248	—
	4,445	144

10. Taxation

a) Analysis of charge in period:

	2010	2009
	\$000	\$000
Current tax		
Overseas – current year	864	190
Deferred tax		
UK — current year	2,202	3,505
UK — prior year	(1,749)	(706)
Tax on profit on ordinary activities	1,317	2,989

b) Factors affecting tax charge for the period:

The charge for the period can be reconciled to the loss as per the income statement as follows:

	2010	2009
	\$000	\$000
Current tax reconciliation		
Loss on ordinary activities before tax	(39,259)	(6,830)
Current tax credit at 28 per cent (2009: 28 per cent)	(10,993)	(1,912)
Effects of:		
Tax effect of the application of overseas tax rates*	1,463	107
Tax effect of expenses not deductible in determining taxable profit	4,806	3,598
Tax effect of losses not recognised	7,791	1,902
Tax effect of prior year adjustments	(1,750)	(706)
Tax charge for the year	1,317	2,989

* including the impact on deferred tax due to the reduction in the Ukraine tax rate outlined in Note 23.

11. 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 \$41,941,000 for the year ended 31 December 2010 (2009: \$13,194,000).

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12. Loss per Share

Basic loss per share of 12.8 cents (2009: 3.7 cents) is based upon losses of \$40,576,000 (2009: \$9,819,000) and 318,217,768 (2009: 264,073,061) 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.

13. Intangible Fixed Assets

Group	2010				2009			
	Exploration assets		Computer	Total	Exploration assets		Computer	Total
	Romania \$000	Egypt \$000	Software \$000		Romania \$000	Egypt \$000	Software \$000	
Cost								
At beginning of year	21,506	5,395	484	27,385	21,187	4,794	447	26,428
Additions	3,477	82	20	3,579	1,028	696	37	1,761
Exploration costs written off	—	—	—	—	—	(95)	—	(95)
Reclassified as asset held for sale (see Note 16)	(11,202)	—	—	(11,202)	—	—	—	—
Effect of movement in foreign exchange	(1,727)	—	—	(1,727)	(709)	—	—	(709)
At end of year	12,054	5,477	504	18,035	21,506	5,395	484	27,385
Amortisation								
At beginning of year	—	—	318	318	—	—	228	228
Charge for year	—	—	66	66	—	—	90	90
Impairment losses (see Note 5)	10,928	4,376	—	15,304	—	—	—	—
At end of year	10,928	4,376	384	15,688	—	—	318	318
Net book value at 31 December	1,126	1,101	120	2,347	21,506	5,395	166	27,067

Company	2010	2009
	Computer Software \$000	Computer Software \$000
Cost		
At beginning of year	407	385
Additions	—	22
At end of year	407	407
Amortisation		
At beginning of year	256	184
Charge for year	60	72
At end of year	316	256
Net book value at 31 December	91	151

14. Property, Plant and Equipment

	2010			2009		
	Exploration, Development and Production assets Ukraine \$000	Other fixed* assets \$000	Total \$000	Exploration, Development and Production assets Ukraine \$000	Other fixed* assets \$000	Total \$000
Group						
Cost						
At beginning of year	159,458	1,474	160,932	66,495	1,713	68,208
Additions	82,683	210	82,893	92,966	123	93,089
Disposals	—	(5)	(5)	—	(351)	(351)
Effect of movement in foreign exchange	—	(3)	(3)	(3)	(11)	(14)
At end of year	242,141	1,676	243,817	159,458	1,474	160,932
Depreciation						
At beginning of year	8,396	1,044	9,440	5,609	1,011	6,620
Charge for year	4,507	204	4,711	2,787	211	2,998
On disposals	—	(5)	(5)	—	(168)	(168)
Effect of movement in foreign exchange	—	(4)	(4)	—	(10)	(10)
At end of year	12,903	1,239	14,142	8,396	1,044	9,440
Net book value at 31 December	229,238	437	229,675	151,062	430	151,492

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

	2010 Other fixed assets \$000	2009 Other fixed assets \$000
Company		
Cost		
At beginning of year	641	936
Additions	117	56
Disposals	—	(351)
At end of year	758	641
Depreciation		
At beginning of year	560	657
Charge for year	53	71
On disposals	—	(168)
At end of year	613	560
Net book value at 31 December	145	81

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15. Fixed Asset Investments

Company	Shares in subsidiary undertakings \$000	Loans to subsidiary undertakings \$000	Total \$000
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
Cost			
At 1 January 2010	17,279	175,327	192,606
Additions	—	88,091	88,091
Provision against subsidiary loans	—	(23,066)	(23,066)
At 31 December 2010	17,279	240,352	257,631

In accordance with the Company's accounting policies loans to subsidiaries have been reviewed to assess recoverability. As a result of the impairment of the Group's Egypt and Romanian assets, a provision against the carrying value of loans between the Company and other Group companies in which these assets are held has been recorded.

Subsidiary undertakings

At 31 December 2010, the Company's subsidiary undertakings, all of which are included in the consolidated financial statements, were:

	Country of incorporation	Country of operation	Principal activity	Percentage of shares held
Regal Petroleum (Jersey) Limited	Jersey	Ukraine	Holding company	100%
Regal Petroleum Corporation Limited	Jersey	Ukraine	Oil & Natural Gas Extraction	100%
Regal Petroleum Ukraine Limited	Ukraine	Ukraine	Oil & Natural Gas Extraction	100%
Regal Petroleum Corporation (Ukraine) Limited	Ukraine	Ukraine	Service Company	100%
Regal Romania SRL	Romania	Romania	Oil & Natural Gas 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 per cent 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 per cent ownership by Regal Petroleum (Jersey) Limited. Regal Petroleum Corporation (Ukraine) Limited is controlled by its 100 per cent ownership by Regal Petroleum (Jersey) Limited and Regal Group Services Limited.

16. Assets held for sale

On 29 September 2010, the Company entered into a conditional sale and purchase agreement with Chevron Romania Exploration and Production BV ("Chevron") for the sale to Chevron of Regal's 100 per cent owned Barlad concession in Romania (previously disclosed as intangible fixed assets) for a cash consideration of \$25.0 million. The sale was completed on 14 February 2011, with sales proceeds received net of taxes amounting to \$23.0 million. The gain arising, after working capital adjustments and before taxes, of approximately \$13.3 million will be recorded in the 2011 financial statements.

17. Inventories

	Group	
	2010	2009
	\$000	\$000
Materials	9,604	20,024
Condensate stock	85	42
	9,689	20,066

In accordance with the Group accounting policies, inventories are recorded at the lower of cost and net realisable value. Given the curtailment of the drilling programme in the near term in Ukraine, particularly the cancellation of the Saipem contract during the year, for the reasons outlined in Note 2, a \$3,667,000 write down of materials inventory has been recognised (2009: \$nil). This write down has been recorded within cost of sales in the income statement.

18. Trade and Other Receivables

	Group		Company	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Trade receivables	40	18	—	—
Amounts owed by Group undertakings	—	—	38	38
Prepayments and accrued income	2,136	1,867	648	417
Corporation tax receivable	300	—	—	—
Purchase tax receivable	3,635	14,505	196	152
Other receivables	265	362	653	279
	6,376	16,752	1,535	886

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 \$2,800,000 (2009: \$13,176,000) 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 \$18,112,000 (2009: \$3,593,000) 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. The balance is shown at net present value, using a discount rate based on an appropriate long term Ukraine Government bond and on the assumption that production resumes in Ukraine in the second half of 2011. This results in a corresponding finance charge of \$4,248,000 (2009: \$nil)

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19. Cash, Cash Equivalents and Other Financial Assets

a. Cash and Cash Equivalents

	Group		Company	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Cash at bank and on hand	781	1,862	69	102
Short-term deposits on hand	9,434	98,643	9,434	98,626
Restricted cash	13,050	18,087	13,050	18,087
	23,265	118,592	22,553	116,815

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 \$23,265,000 (2009: \$118,592,000). The Group only deposits cash surpluses with major banks of high quality credit standing.

Restricted cash comprises \$13,050,000 held as a letter of credit for fees payable with respect to the termination of the Saipem drilling contract.

b. Other Financial Assets

Other financial assets for the Group and Company comprise \$1,547,000 (2009:\$nil) held in escrow for professional fees relating to the partial offer from Energees Management Limited (see Note 31).

20. Trade and Other Payables

	Group		Company	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Trade payables	1,367	7,543	146	183
Taxation and social security	186	294	—	—
Accruals and deferred income	23,429	15,652	12,884	852
	24,982	23,489	13,030	1,035

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

Included within accruals and deferred income are amounts due to Saipem SpA under the terms of an agreement reached in late 2010 representing the settlement of all liabilities and obligations with regard to both the utilisation of the drilling rigs operated by Saipem and to the various other arrangements between Saipem and Regal. The amounts included are as follows:

1. A sum of \$8,083,000 being to terminate each of the two contracts for the drilling rigs operating in Ukraine.
2. A further sum of \$11,926,000 to release the Company from all other obligations and liabilities, including the release of all guarantees and letters of credit.

21. Obligations Under Finance Leases

	Group	
	2010 \$000	2009 \$000
Amounts payable under finance leases:		
Within one year	79	89
In the second to fifth years inclusive	31	63
	110	152
Less future finance, service and insurance charges	(38)	(56)
Present value of lease obligations	72	96
Amount due for settlement within 12 months (shown under current liabilities)	51	55
Amount due for settlement after 12 months	21	41

The finance leases relate to motor vehicles in Ukraine. The average lease term is three years. For the year ended 31 December 2010, the average effective borrowing rate was 14.19 per cent (2009: 14.67 per cent). 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 2010, the carrying value of these assets was \$113,000 (2009: \$148,000).

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

22. Provisions for Liabilities and Charges

	Provision for decommissioning \$000	Other \$000	Total \$000
Group			
At beginning of year	3,732	146	3,878
Amounts provided/(utilised)	1,950	(102)	1,848
Unwinding of discount	159	—	159
At end of year	5,841	44	5,885

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 by 2024.

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23. Deferred Tax

	Group	
	2010 \$000	2009 \$000
At beginning of year	5,892	3,093
Charged to income statement - current year	2,202	3,505
Credited to income statement - prior year	(1,749)	(706)
At end of year	6,345	5,892

At 31 December 2010 and in gross terms, there were unrecognised deferred tax assets in respect of estimated tax losses carried forward of approximately \$162 million (31 December 2009: \$135 million). The majority of this (approximately \$150 million) relates to UK tax losses which can be carried forward indefinitely. The remaining balance (approximately \$12 million) relates to tax losses incurred in Romania, which can be generally carried forward for seven years. The Directors do not consider it appropriate to recognise deferred tax assets, resulting from accumulated tax losses as at 31 December 2010, as there is insufficient evidence of future taxable Group profits.

Factors affecting future tax charge

On 28 June 2010, the UK Finance Bill 2010-11 was presented to Parliament, proposing four annual reductions in the rate of UK corporation tax from 28% to 24% by 2014. At the balance sheet date, the reduction to 27% was enacted, as reflected in these financial statements. Subsequently, on 23 March 2011, the UK Government announced a reduction in the main rate of corporation tax from 28% to 26% effective from 1 April 2011; the 26% rate was substantively enacted on 29 March 2011. The Government also indicated that the annual reductions would continue until 23% is reached in 2014. In December 2010, the Ukrainian government adopted the tax code of Ukraine which has replaced all previously existing tax laws and introduced a number of major changes into Ukrainian tax legislation. As part of these changes, the corporate income tax rates were reduced on 1 April 2011 from 25% to 23%, with further reductions taking effect on a staged basis such that the rate falls to 16% by 2014.

24. Called up Share Capital

	2010		2009	
	Number	\$000	Number	\$000
Allotted, called up and fully paid				
Opening balance at 1 January	315,645,664	27,710	211,645,664	19,094
Issued during the year:				
— Exercise of share options	2,721,212	222	—	—
— Share issue	—	—	104,000,000	8,616
Closing balance at 31 December	318,366,876	27,932	315,645,664	27,710

There are no restrictions over ordinary shares issued.

24. Called up Share Capital continued

Share Option Schemes

Long-Term Incentive Plan (LTIP)

The Company operates an LTIP scheme for certain directors and senior employees of the Group. These 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. The LTIP scheme was introduced during 2009 where, 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 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).

As a result of the unconditional offer by Energiees Management Limited to shareholders of the Company, (see Note 31), all LTIP awards held at this date automatically vested.

Share Option Scheme

The 2004 Share Option Scheme is still in operation, but only applies to past Non-Executive Directors whose remaining options granted under the 2004 Share Option Scheme have vested and expired during 2010.

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.

	2010		2009	
	number	WAEP £	number	WAEP £
Outstanding at beginning of year	7,950,229	0.340	11,736,600	1.796
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
Exercised during the year	(2,721,212)	(0.050)	—	—
Expired during the year	(2,111,457)	(0.597)	(138,000)	(1.101)
Outstanding at end of year	3,117,560	0.442	7,950,229	0.340
Exercisable at end of year	134,500	0.050	4,417,812	0.571

The principal inputs to the options valuation model in respect of the 2009 grants were:

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% – 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.

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24. Called up Share Capital *continued*

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
2008	1.069	1.83
2009	0.795	1.58
2010	0.806	1.74

The Company recognised a total charge of \$2,687,000 (2009: \$7,618,000) in respect of cash and equity settled share-based awards. An amount of \$9,102,000 (2009: \$602,000) was transferred between the equity share option reserve and the profit and loss account upon the exercise or lapse or certain awards (see Note 25). The charge for the year incorporates a reduced vesting period of no later than March 2011, to take into consideration the automatic vesting of all outstanding options under the LTIP scheme triggered by the Company's acquisition by Energiees Management Limited (see Note 31).

25. Other Reserves

Other reserves, the movements in which are shown in the statements of changes in equity, comprise the following:

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.

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.

26. Operating Lease Arrangements

The Group as lessee

	Group		Company	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Minimum lease payments under operating leases recognised as an expense for the year	520	611	375	459

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	2010	2009
	Land and buildings \$000	Land and buildings \$000
Amounts payable due:		
— Within one year	451	464
— In the second to fifth years inclusive	677	1,045
	1,128	1,509

27. Reconciliation of Operating Loss to Operating Cash Flow

Group	2010 \$000	2009 \$000
Operating loss	(32,902)	(9,139)
Depreciation, amortisation and impairment charges	20,081	3,088
Write down of inventory	3,667	—
Movement in provisions	(102)	61
Share option charge	2,687	7,618
Exploration costs written off	—	95
Increase in condensate stock	(44)	(100)
Decrease in debtors	3,795	3,802
Increase in creditors	17,166	1,726
Cash from operations	14,348	7,151

Company	2010 \$000	2009 \$000
Operating loss	(44,340)	(18,274)
Depreciation, amortisation and impairment charges	113	327
Share option charge	2,687	7,618
Movement in provisions	23,094	(29)
Increase in debtors	(615)	(38)
Increase in creditors	11,917	488
Cash used in operations	(7,144)	(9,908)

Notes continued

forming part of the financial statements

28. 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 is under discussion with its new majority shareholder, Energiees Management Limited (see Note 31.) and although no firm decisions have been taken, it may take the form of shareholders loans to fund its capital expenditure programme. In the short term a letter of support has been obtained from Energiees Investments Limited, as described in the Going Concern section of the Directors' Report.

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.

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, US Dollars, Euros, Ukraine Hryvnia and Romanian Lei. As at 31 December 2010 the Group does not have any long term borrowings (2009: \$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. The Company's financial assets and liabilities are materially the same as the Group's with the exception of financial liabilities which are disclosed separately. Currencies held in Ukraine Hryvnia and Romanian Lei are held outside the Company.

	2010	2009
	\$000	\$000
Financial Assets		
Cash and cash equivalents	23,265	118,592
Trade and other receivables	510	178
Other financial assets	1,547	—
	25,322	118,770
	2010	2009
	\$000	\$000
Financial Liabilities		
Group		
Trade and other payables	1,367	7,326
Accruals	23,615	15,130
	24,982	22,456
	2010	2009
	\$000	\$000
Company		
Trade and other payables	146	183
Accruals	12,884	852
	13,030	1,035

28. Financial Instruments continued

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	2010 \$000	2009 \$000
British Pounds	3,156	28,121
Euros	(3,741)	29,989
Ukraine Hryvnia	(1,754)	8,230
Romanian Lei	594	1,452
	(1,745)	67,792

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.

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 principally arises on 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	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Profit/(loss)						
— 10 per cent strengthening of USD	(1,627)	(3,040)	(310)	(2,976)	(8)	(42)
— 10 per cent weakening of USD	1,627	3,040	310	2,976	8	42
Other equity						
— 10 per cent strengthening of USD	(1,627)	(3,040)	(310)	(2,976)	(8)	(42)
— 10 per cent weakening of USD	1,627	3,040	310	2,976	8	42

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.

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28. Financial Instruments continued

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 2010 would decrease by \$324,000 in the event of 0.5 per cent higher interest rates and increase by \$327,000 in the event of 0.5 per cent lower interest rates (2009: decrease and increase by \$525,000). 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 (2009: not affected).

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

Liquidity Risk

The Group's objective throughout the year has been to ensure continuity of funding. Operations 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 per cent of back costs were reimbursed.

Details of the Group's cash management are explained in Note 19.

Liquidity, credit and cashflow 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 2010 with an exposure to interest rate risk:

Currency	Total \$000	2010		Total \$000	2009	
		Floating rate financial assets \$000	Fixed rate financial assets \$000		Floating rate financial assets \$000	Fixed rate financial assets \$000
British Pounds	3,098	3,098	—	29,765	29,765	—
US Dollars	3,445	3,445	—	57,996	57,996	—
Euros	16,270	16,270	—	30,399	30,399	—
Ukraine Hryvnia	79	79	—	416	416	—
Romanian Lei	373	373	—	16	16	—
Total	23,265	23,265	—	118,592	118,592	—

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 (2009: \$nil).

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

28. Financial Instruments continued

Maturity of Financial Liabilities

The maturity profile of financial liabilities, on an undiscounted basis, is as follows:

	2010	2009
	\$000	\$000
Group		
In one year or less	24,982	22,456
Within two to five years	—	—
In more than five years	—	—
Total	24,982	22,456
	2010	2009
	\$000	\$000
Company		
In one year or less	13,030	1,035
Within two to five years	—	—
In more than five years	—	—
Total	13,030	1,035

Borrowing Facilities

The Group did not have any borrowing facilities available to it at year end (2009: nil).

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.

29. Capital Commitments

Amounts contracted in relation to the Ukraine field development but not provided for in the financial statements at 31 December 2010 were \$283,000 (2009: \$699,000). In December 2010 the Company terminated its contract with Saipem SpA for the provision of two drilling rigs, and therefore has no further commitment in relation to these rigs (2009: \$59,220,000).

30. Related Party Disclosures

Key management personnel of the Group are considered to comprise only the Directors. Details of Directors' remuneration are disclosed in Note 7. No other related party transactions occurred during the period.

Notes continued

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31. Post Balance Sheet Events

On 29 September 2010, the Company entered into a conditional sale and purchase agreement with Chevron Romania Exploration and Production BV (“Chevron”) for the sale to Chevron of Regal’s 100 per cent owned Barlad concession in Romania for a cash consideration of \$25.0 million. The sale was completed on 14 February 2011, with sales proceeds net of tax received of \$23.0 million, the majority of which were used to settle the Saipem accrual described in Note 20.

On 10 December 2010 the boards of Regal and Energiees Investments Limited announced that they had reached an agreement on the terms of a recommended cash offer to be made by Energiees Management Limited to the shareholders of the Company. On 6 February 2011 Energiees Investments Limited and Regal announced the terms of an increased, recommended partial offer of 38 pence to be made by Energiees Management Limited. The transaction was declared wholly closed on 4 March 2011 and the Company is now 54 per cent owned by Energiees Management Limited, which in turn is 100 per cent owned by Energiees Investments Limited. Energiees Investments Limited is a company which is jointly controlled by

Mr V Novinskiy and Mr A Klyamko.

On 27 January 2011, the Company entered into a conditional sale and purchase agreement with Apache East Ras Budran Corporation LDC (“Apache”) in respect of its 25 per cent non-operated interest in the East Ras Budran Concession (the “Concession”) in Egypt. Apache is currently Regal’s partner in the Concession, holding the remaining 75 per cent interest and acting as operator of the Concession. The consideration payable under the sale agreement is \$1,100,000, subject to working capital adjustments under the current joint venture between Regal and Apache, which will result in net receipts to Regal of \$649,402 at closing of the sale. The sale agreement is subject to Egyptian Government approval of the transaction, which is expected to take some months to obtain due to recent political developments in that country. Closing of the sale will take place immediately after Egyptian Governmental approval is granted.

There have been developments subsequent to 31 December 2010 in relation to the Ministry Order in Ukraine. Further details are provided in History and Status of Discussions with Ministry of Environmental Protection section of the annual report.

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United Kingdom

Glossary

mm

millimetres

2P

proved and probable

bcf

billion cubic feet

psi

pounds per square inch

km

kilometres

km²

square kilometres

m³/d

cubic metres per day

Mm³

thousand cubic metres

Mm³/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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