Regal Petroleum

Annual Report and Accounts 2011

Regal Petroleum plc is an independent oil and gas company, listed on the AIM market of the London Stock Exchange and focused on gas and condensate field development in Ukraine.

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Principal Developments

Ukraine Operations

Production resumed in late July 2011, with average production over the five month period to 31 December 2011 at 216,573 m^3/d of gas and 48 m^3/d of condensate (1,653 boepd in total)

Average production over the three month period to 31 March 2012 at 233,800 m^3/d of gas and 49 m^3/d of condensate (1,769 boepd in total)

Technical review completed and 2012 investment programme finalised to include two new wells, three work-overs, gas processing plant upgrades and compression installation

Well SV-53 spudded on 28 February 2012 and well MEX-105 spudded on 17 April 2012

Finance

Profit for year of $6.4 million (2010: $40.6 million loss) comprising a loss from continuing operations of $3.3 million (2010: $24.8 million loss) and a profit from discontinued operations of $9.7 million (2010: $15.8 million loss) relating to the disposal and impairment of the Group's Romanian and Egyptian interests

Realised 2011 average gas and condensate price of $400/$Mm^3$ and $103/bbl respectively in Ukraine, representing a 57% and 39% increase when compared with 2010

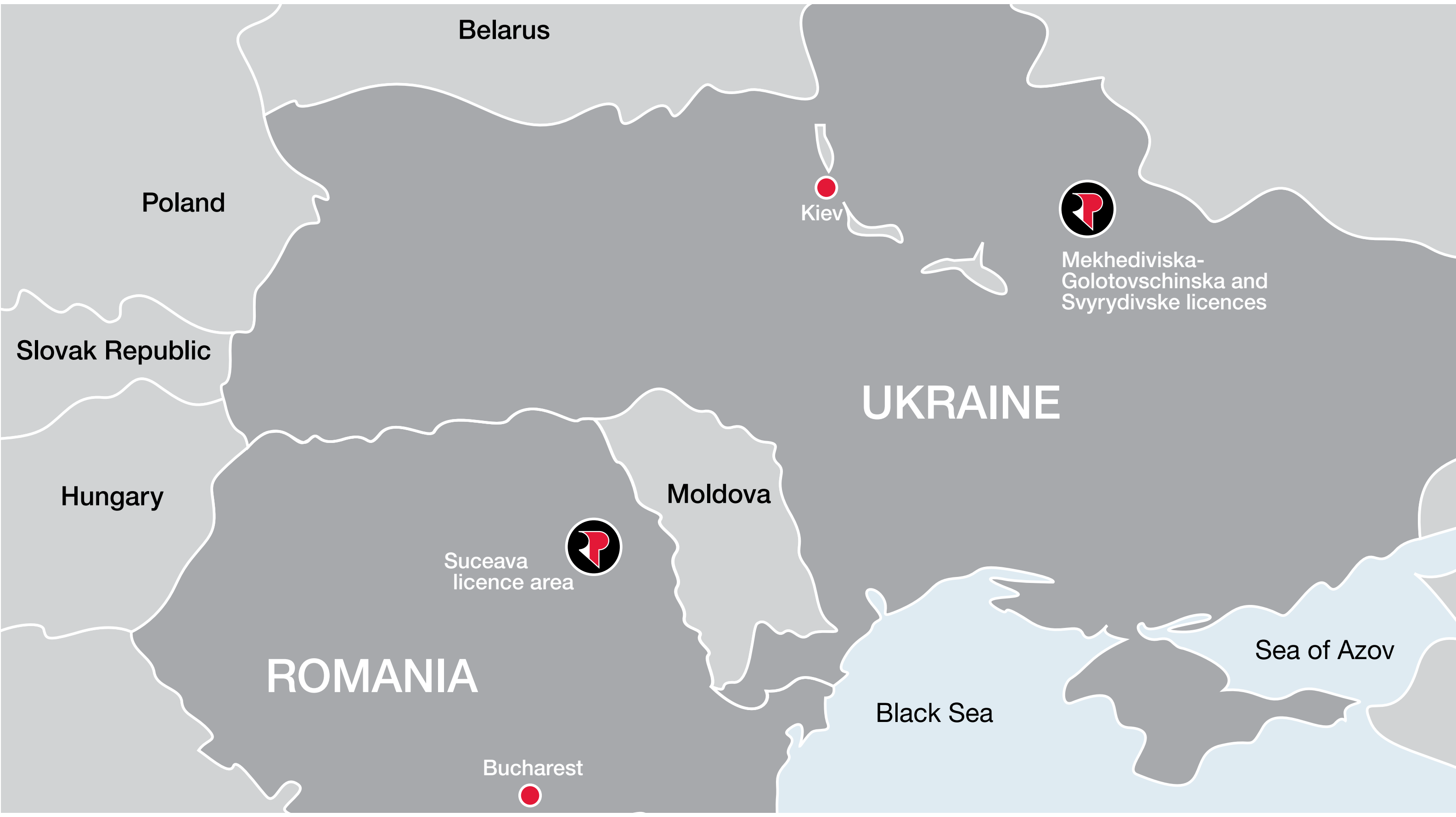
Realised average gas price for first quarter 2012 of $425/$Mm^3$ in Ukraine

Outlook

Continued development of Ukrainian asset through new wells, work-overs and compression installation

Facilities upgrades to gas processing facility to improve quality of gas produced and recovery of LPG

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, successfully drilled well Climauti-1 in the Suceava Block in June 2010. This well was tied into the Bilca gas plant and came on stream on 4 March 2011. The average gross production for March 2012 was 17,960 m³/d. This asset is intended for divestment.

Chairman's Statement

After the events of 2011, I am pleased to report that the Company is now well placed to continue to focus on the appraisal and development of its resources in Ukraine. The resolution of the main regulatory difficulties faced by Regal in Ukraine, which had arisen in 2010, and the addition of a strong local partner during 2011, together with the resumption of production, has allowed the Company to recommence drilling and field operations, and embark on a strategy that we believe will increase value from our main production and exploration asset.

The Company entered 2011 facing a period without revenue and without a resolution to the dispute with the Ukrainian Ministry of Environmental Protection. In May 2010, the Company had received an order signed by the Minister of Environmental Protection identifying matters purportedly requiring rectification in respect of the Company's compliance with certain legislation in Ukraine relating to its operations at its Mekhediviska Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") gas and condensate fields (the "Ministry Order"). The Ministry Order required a suspension of operations and production at Regal's Ukrainian licences. The Ministry Order was challenged in the Ukrainian Courts, but in November 2010 the Company suspended all of its operations and activities at its MEX-GOL and SV fields, pending the hearing of a further appeal.

Following on from this, Regal sought, and received, a number of approaches in relation to possible offers for the Company and subsequently entered into negotiations with several parties regarding potential corporate options. In December 2010, Energees Management Limited ("Energees"; part of the Smart Holding Group "Smart") made an initial recommended offer to acquire the entire issued, and to be issued, share capital of Regal for a cash consideration of 24 pence per share. After a competitive process with another potential bidder, Energees increased its offer to 38 pence per share and simultaneously scaled back its original offer to a partial offer to acquire up to 70% of Regal's shares on a fully diluted basis. No other formal offers were received. The increased partial offer from Energees was recommended by the Regal Board and closed on 4 March 2011, with Energees acquiring 54% of Regal's issued share capital.

On 7 July 2011, the Company filed new proceedings in the District Administrative Court of Kiev against the Ministry of Environmental Protection and the State Geological Service of Ukraine in respect of the Ministry Order, whilst at the same time making an interim application in the new proceedings seeking a suspension of the Ministry Order. The interim application was granted on 8 July 2011, allowing the Company to implement plans to restart production at its MEX-GOL and SV fields. Production was restarted on 22 July 2011. Regal subsequently received a written decision, dated 18 July 2011, of the District Administrative Court of Kiev in the new proceedings, ruling that the Ministry Order was unlawfully issued and ordering its cancellation. This ruling came into force on 6 August 2011. The Court's decision in favour of the Company to lift the licence suspension has enabled the resumption of all operational activities in Ukraine.

Management's attention, with Energees' support, has been focused on enhancing existing production, consolidating the Company's technical and operational activities in Ukraine and the development of the Company's future investment programme. Having performed a technical review of current well stock, the Company has embarked on an investment programme for 2012 at its MEX-GOL and SV fields in Ukraine. Under this programme two new wells will be drilled, three work-overs will be undertaken, gas processing plant upgrades will commence and compression will be utilised. Of the new wells, SV-53 was spudded on 28 February 2012 and MEX-105 was spudded on 17 April 2012; the work-over of SV-66 has been completed and the well is currently on test.

The Company's profit for the year of $6.4 million includes a profit from discontinued operations of $9.7 million relating principally to the disposal of the Barlad concession in Romania and the East Ras Budran concession in Egypt, although an impairment charge of $0.7 million was recorded within the Company's Romanian subsidiary.

During 2011 the Company has faced some considerable challenges and changes. On behalf of the Board, I would like to thank our staff for the dedication and support they have shown.

Board Changes

Following the partial acquisition of Regal by Energees, I had the pleasure of welcoming to the Board, Denis Rudev as Executive Director on 1 April 2011 and Alexey Timofeyev and Alexey Pertin as Non-Executive Directors on 28 March 2011 and 1 April 2011, respectively. In accordance with the relationship agreement, announced on 3 March 2011, Energees Investments and JSC Smart Holding UA are entitled to nominate three representatives to the Board.

Robert Wilde stepped down from the Board and from his position as Finance Director following the announcement of the Interim Results on 28 September 2011, and Denis Rudev was appointed to this role. On 20 February 2012, Denis Rudev resigned from the Board and Sergei Glazunov was appointed as a Non-Executive Director, maintaining Energees' representation on the Board.

The Board would like to record its appreciation of the contributions made by Robert Wilde and Denis Rudev to the Company during their respective appointments.

Outlook

Our focus during 2012 will be to drill the SV-53 and MEX-105 wells, and carry out the three planned work-overs. Successful completion of these activities will ultimately enable us to improve our daily production, as well as provide a further understanding of the MEX-GOL and SV reservoir performance.

The upgrades to our gas treatment facility will improve the quality of our gas production and enable us to recover and sell LPG. Based on our current production, and the resultant revenue we receive for our gas and condensate sales, we anticipate we will fund our planned 2012 development programme from existing cash resources and operational revenues.

Subject to positive results from our SV-53 and MEX-105 wells, we plan to increase the number of rigs we employ on the MEX-GOL and SV fields to more fully develop the reservoir.

Keith Henry
Executive Chairman

Review of Operations

Health, Safety, Environment and Security ("HSES")

Regal is committed to maintaining the highest standards of 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.

Ukraine

Asset Overview

Regal Petroleum Corporation Ltd (a wholly owned subsidiary in the Regal Group of companies) holds a 100% working interest and is the operator of the MEX-GOL and SV fields. The licences are the Company's primary assets and extend over a combined area of 269 km², approximately 200 km east of Kiev. The two licences are adjacent and the interests are operated and managed as one field.

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

Operations

Following the suspension of development drilling in 2010, Regal initiated a strategic review of reservoir performance and its business plans which concluded that development of the Ukrainian assets would require further technical studies, including testing of alternative well completion technologies 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.

After the cancellation of the Ministry Order in July 2011, the Company's focus has been to reinstate and enhance available production. A steady increase in production was observed each month from August to December 2011 while work continued to further improve production rates following the lengthy period the wells had been shut-in.

During 2011, in addition to performing a full technical review of existing wells, one compressor was installed at the MEX-3 well, resulting in increased production. A second compression unit has been purchased and the intention is to install this unit at the gas treatment facility to aid the performance of the lower pressure wells.

As announced in January 2012, the Company has entered into drilling contracts with local Ukrainian contractors for the drilling of two new wells, SV-53 and MEX-105. Combining local drilling expertise with modern technology, the Ukrainian drilling rigs will be supplemented by the use of selected equipment designed to improve drilling operations. The expected result of this hybrid approach is to significantly reduce the capital expenditure for each well. Our medium term development programme, including these two new wells, will focus on production from the shallower B-Sand reservoirs, rather than targeting the deeper T-Sands and D-Sands. This will not exclude further appraisal of these deeper sands at a later date, but our more immediate objective is to increase production from the primary reservoir.

SV-53 was spudded on 28 February 2012 and is scheduled to take 400 days to reach its target depth of 5,450 metres. MEX-105 was spudded on 17 April 2012 and is scheduled to take 350 days to reach its target depth of 5,250 metres. Both wells are targeting the B-Sands.

As part of the 2012 investment programme, the Company intends to carry out work-overs on three existing wells with a view to maintaining and improving production. The first of these work-overs, the installation of a velocity string on well SV-66, has been completed and testing is now underway. Work is expected to commence shortly on the next work-over candidate, GOL-1.

The Company's gas treatment facility is to be upgraded, over two phases, to enhance the facility's overall efficiency and incorporate compression equipment. In addition to enhancing the day-to-day operation of the facility, the upgrade is anticipated to provide financial benefits as well as HSES improvements. This project is expected to take 12 months to complete. Further upgrade work is planned to provide for LPG recovery, reducing the hydrocarbon losses at the gas processing plant and improving the quality of production.

The results from the two new wells, together with the conclusions from other technical studies, will provide additional data on reservoir development and quality and well productivity which will assist with future development planning and reserves estimation.

Production

Production on the field resumed on 22 July 2011 and for the month of August 2011 average production was 198,665 m³/d of gas and 42 m³/d of condensate (1,502 boepd in aggregate). The Company's average production over the five month period to 31 December 2011 was 216,573 m³/d of gas and 48 m³/d of condensate, which equates to a combined total oil equivalent of 1,653 boepd.

The Company's average production over the three month period to 31 March 2012 was 233,800 m³/d of gas and 49 m³/d of condensate, which equates to a combined total oil equivalent of 1,769 boepd.

Romania

The Suceava partnership, in which Regal holds a non-operated 50% interest, successfully drilled well Climauti-1 in the Suceava Block in June 2010. This well was tied into the Bilca gas plant and came on stream on 4 March 2011. The average gross production for March 2012 was 17,960 m³/d. This asset is intended for divestment.

As announced on 14 February 2011, the Company completed the sale of the Barlad Concession in Romania to Chevron Exploration and Production SRL.

Egypt

As announced on 27 January 2011, Regal entered into a conditional sale and purchase agreement with Apache East Ras Budran Corporation LDC ("Apache") in respect of the sale of the Company's 25% non-operated interest in the East Ras Budran Concession, Egypt. Apache was the operator of the concession and held the remaining 75% interest. The transaction was successfully completed on 7 July 2011, following receipt of the necessary approval from the Egyptian Government.

The consideration payable under the sale and purchase agreement was $1,100,000 which, after allowing for working capital adjustments under the joint venture agreement between Regal and Apache, resulted in net receipts to Regal of $640,344.

Finance Review

The Company's revenue from continuing operations is derived from the sale of its Ukrainian gas and condensate production and the Company has benefited from increased gas and condensate prices during 2011. Despite production being shut-in, due to the Ministry Order until 22 July 2011, revenue for the year to 31 December 2011 was $19.1 million. The production loss resulting from the production suspension together with the recovery of production since resumption meant that volumes of gas and condensate sold decreased 58% and 54% respectively when compared to 2010. This was offset to some extent by the increased gas and condensate prices which averaged $400/Mm^3 and $103/bbl respectively, representing a 57% and 39% increase in the average price received when compared with 2010. During December 2011, the average realised gas price was $413/Mm^3.

There continues to be speculation regarding the renegotiation of the gas supply agreement between Russia and Ukraine and its potential effects on the Ukrainian gas price. No decision has been reached on any adjustment to this agreement and therefore the Company has continued to realise an average gas price of $425/Mm^3 in the first quarter of 2012. It is recognised that this level of realisation may decrease in 2012 due to the negotiations outlined above and the Company has taken this into consideration in its internal projections and budgets.

For the year ended 31 December 2011, the Company realised a profit of $6.4 million (2010: $40.6 million loss) comprising a loss from continuing operations of $3.3 million (2010: $24.8 million loss) relating to operations in Ukraine and head office costs and a profit from discontinued operations of $9.7 million (2010: $15.8 million loss) relating to the disposal and impairment of the Company's Romanian and Egyptian interests.

Administrative expenses of $16.1 million include transaction costs of $4.3 million which are mostly advisers' fees incurred in respect of the competitive takeover process for the acquisition of the Company. This compares to $30.0 million administrative costs in 2010 of which $18.7 million related to the termination of the drilling contracts and the settlement and release of liabilities and securities with Saipem. Cash used in operating activities of $21.4 million includes the settlement of the Saipem liability in February 2011.

The share-based charge of $0.8 million in the income statement is a non-cash item calculated for the period in accordance with the provisions of IFRS 2 and relates to share options issued to Directors and staff. As a result of the successful offer by Energees to shareholders of the Company many of these options automatically vested in March 2011.

Due to this event and the expiry of the remaining options, there are no options outstanding over shares in the Company as at 31 December 2011.

Finance income for the year of $1.3 million primarily represents the unwinding of the discount on long-term purchase tax balances at their net present value recoverable from the Ukrainian Government, for which there was an equivalent charge of $4.2 million in 2010.

The income tax credit on continuing operations of $3.5 million (2010: expense of $1.3 million) comprises a current tax expense of $0.4 million and a deferred tax credit of $3.9 million. The deferred tax credit includes the effect of disclaiming certain capital allowances relating to the Ukrainian oil and gas asset, as well as other temporary differences arising in the current year.

Profits from discontinued operations are attributable to gains from the sale of the Company's Barlad concession in Romania of $10.4 million and from the sale of the Company's East Ras Budran concession in Egypt of $0.4 million. These gains are offset against a loss of $1.1 million arising from the Company's subsidiary, Regal Petroleum Romania SRL, which includes the Suceava concession and has been classified as an asset held for sale. This reclassification has arisen as the Company expects the value of this asset to be realised through sale. Cash proceeds net of expenses and taxes from the sale of the Barlad and East Ras Budran concessions were $23.3 million. In relation to the sale of the Barlad concession, the Company remitted purchase tax to the Romanian authorities of $3.2 million, and the Company anticipates recovery of this purchase tax during 2012.

Due to the low level of development activity in the first half of the year owing to the suspension of all production and operational activities, capital expenditure for 2011 was limited to $1.3 million compared to the $86.5 million invested during 2010. The increase in current trade and other receivables to $16.7 million for 2011, from $6.4 million in 2010, is principally attributed to the anticipated recovery of purchase tax from the Romanian authorities mentioned above, together with the expected purchase tax balances recoverable in Ukraine during 2012.

Cash held at 31 December 2011 of $19.7 million primarily reflects renewed operational cash generated following the resumption of production, together with proceeds from the Barlad and East Ras Budran disposals. The Company's current cash position and positive operating cash flow are the sources from which management expects the 2012 capital investment programme will be funded.

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 Audit Committee and the Board on a regular basis for review, to bring to their attention potential concerns and, where possible, propose mitigating actions. Key risks recognised are detailed below.

Risks relating to the Ukraine

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 the first half of 2011, there are significant risks to carrying out business in the country. It is hoped the involvement of Energees, as a major shareholder with extensive experience in Ukraine, will help mitigate such risks in the future.

Risks relating to Romania and Egypt

Regal's activities 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 Concession and the potential disposal of Regal Petroleum Romania SRL and/or the Suceava Concession, the Company has limited continuing operations in Romania.

Following the completion of the sale of its East Ras Budran asset to Apache in July 2011 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 Ministry Order has now been resolved, the environment is such that a challenge may arise at any time in the future from licence history or compliance with licence commitments or local regulations. The Company endeavours to ensure compliance with commitments and regulations via Company procedures and controls 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.

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 and Romania. The economies in these regions have all been subject to volatile pressures during the period, with the global economy experiencing continued difficulties during 2011. If these pressures continue, worsen or recur, 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 in the development of the Company's Ukrainian gas and condensate assets; ii) the production and sale of gas and condensate; and iii) the continued exploration for further hydrocarbon reserves.

The Company receives sales proceeds in Ukrainian Hryvnia, and the majority of the capital expenditure costs for the 2012 investment programme will be incurred in Hryvnia, thus costs are matched. As with all currencies, the value of the Hyrvnia is subject to foreign exchange fluctuations. At this time the Hryvnia does not enjoy the range of benefits of currency hedging instruments that are available in more developed economies and the Board has adopted a policy that funds not required for use in Ukraine be retained on deposit in the United Kingdom, principally in US Dollars.

Oil and gas price risk

The Company derives its revenue principally from the sale of its Ukrainian gas and condensate production. These revenues are subject to oil price volatility and political influence. A prolonged period of low oil (and hence gas and condensate) prices may impact the Company's ability to maintain its long-term investment programme with a consequent effect on growth rate which in turn 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 due to the dependency of Ukraine on imported gas. The Russian and Ukrainian Governments continue to negotiate future gas import prices and there is a risk that these may be reduced. However, the outcome of these negotiations and its impact on the price that the Company is able to achieve are as yet unknown.

Operating Environment, Principal Risks and Uncertainties continued

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 and condensate) prices than short term oil price volatility. However, short term volatility does affect liquidity risk, as, in the early stage of the project, income 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. 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 risks as Regal targets the appraisal and production 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, development 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 are highly technical and complex activities and may be curtailed, delayed or cancelled as a result of a variety of factors.

Exposure to credit, liquidity and cash flow risk

The Company does not currently have any loans outstanding. Local customers are managed in Ukraine and their financial position, past experience and other factors are evaluated. Internal financial projections are regularly made based on the latest estimates available, and various scenarios are run to assess the robustness of the liquidity of the Company. The Company currently holds sufficient cash for the anticipated short term needs of the business. Whilst much of the future capital need is expected to be derived from operational cash generated from production, including from wells yet to be drilled, there is a risk that in the longer term insufficient operational cash is generated, or that additional funding, should the need arise, cannot be secured.

Risks relating to key personnel

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

Risks relating to further development and operation of the gas and condensate 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 in 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
Executive Chairman

Keith Henry was appointed as Non-Executive Chairman in April 2008, and took on the role of Executive Chairman in September 2010. Mr Henry has over 35 years experience in the development, financing, design, construction and management of projects in the oil and gas, process and energy industries, during which time he was Chief Executive of National Power plc, a FTSE100 company, Kvaerner Engineering and Construction Limited, and Brown & Root Limited. Mr Henry is currently Chairman of Mediterranean Oil & Gas Plc, the senior independent Director of Sterling Energy plc, and Non-Executive Director for HPR Holdings Limited. As a Non-Executive Director within the energy sector, Mr Henry previously served as Chairman of Burren Energy plc, Chairman of Helius Energy plc, Chairman of Petrojarl ASA, Deputy Chairman of Petroleum Geo-Services ASA, senior independent Director for Emerald Energy plc, and Director for First Calgary Petroleums Limited, and Enterprise Oil plc. Mr Henry is a Fellow of the Royal Academy of Engineering and a chartered civil engineer with a BSc degree from London University and a MSc from the University of Birmingham.

Dr Alastair Graham
Non-Executive Director

Alastair Graham was appointed as Non-Executive Director in January 2010. Dr Graham has over 30 years experience in the oil and gas industry having held a number of senior management roles with BP plc ("BP"), including UK Business Development Manager, Upstream Mergers and Acquisitions Manager, V-P of OAO Sidanco in Russia, leader of BP's Southern North Sea gas production business, V-P of BP Exploration Alaska and, most recently, leader of BP's Russia business unit and its shareholder representative for the TNK-BP joint venture. Since retirement from BP in March 2009, Dr Graham has provided consultant advisory services in the oil and gas sector. He holds a PhD in Geology from the University of Edinburgh, an MBA from the University of Strathclyde and an MA in Natural Sciences from the University of Cambridge.

Adrian Coates
Non-Executive Director

Adrian Coates was appointed as Non-Executive Director in July 2008. Mr Coates has many years experience in the investment banking industry, having held senior positions with HSBC Bank plc for 10 years, latterly as Global Sector Head, Resources and Energy Group, Global Banking and Markets Division. He has also held senior roles in UBS, Warrior International and Credit Suisse First Boston with a specialisation in the natural resources sector. His City experience is extensive and he has advised on many substantial corporate transactions. Mr Coates is currently the senior independent Director of Polyus Gold International Limited (formerly Kazakhgold Group Limited). Mr Coates holds a MA(Econ) from Cambridge University and a MSc(MBA) from London Business School.

Alexey Pertin
Non-Executive Director

Alexey Pertin was appointed as a Non-Executive Director in April 2011 and is a nominee of Regal's majority shareholder, Energees Management Limited. He is currently a Director of Energees Investments Limited and Energees Management Limited 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. Mr Pertin holds an MBA from Newcastle Business School, England.

Alexey Timofeyev
Non-Executive Director

Alexey Timofeyev was appointed as a Non-Executive Director in March 2011 and is a nominee of Regal's majority shareholder, Energees Management Limited. Prior to joining the Smart Holding Group, Mr Timofeyev held positions at SJSC Naftogaz Ukrainy (the Ukrainian state oil and gas Company), Concern Geo-Alliance UA and SC Ukrgazvydobuvannya, a subsidiary of SJSC Naftogaz Ukrainy. He is currently First Deputy Chief Executive Officer for Corporate Development and Asset Management of JSC Smart. Mr Timofeyev holds a degree in International Economic Relations.

Sergei Glazunov
Non-Executive Director

Sergei Glazunov was appointed as a Non-Executive Director in February 2012 and is a nominee of Regal's majority shareholder, Energees Management Limited. He is currently the Chief Financial Officer of Smart Energy LLC. Previous positions held include Director of Corporate Development at JSC Smart, Deputy CEO at JSC Concern AVEC & Co and Vice President at JP Morgan Chase and Bank One Investment Management Group. He also has extensive teaching and academic research experience working at Wayne State and Michigan State Universities. Mr Glazunov is a Chartered Financial Analyst and holds an MSc in Mathematics from Kiev State University, an MSc in Statistics from Michigan State University and an MBA from Wayne State University.

Corporate Governance Statement

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

The Board

The Board of the Company consists of an Executive Chairman and five 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.

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 Executive 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 Executive Chairman who is considered to be independent for this role, meets not less than twice a year and considers the Company's financial reporting (including accounting policies) and internal financial controls.

Meetings are normally attended, by invitation, by the Chief Finance Officer (who is not on the Board of Directors) 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 2011 through regular Board meetings.

Code of Conduct

The Group has a zero tolerance policy towards bribery and maintains high ethical standards in carrying out its business activities in regard to dealing with gifts, hospitality, corruption, fraud, the use of inside information and whistle-blowing.

Communication with shareholders

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

The tenth 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.com

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2011.

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 and Romania. In 2011 the Group disposed of its interests in Egypt, and the Barlad concession in Romania. The Group's remaining interest in Romania has been classified as held for sale as at 31 December 2011 (see Note 12). The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 17 to the financial statements.

Proposed Dividend

The Directors do not recommend the payment of a dividend (2010: $nil).

Policy and Practice on Payment of Creditors

The Group's 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's and Company's average number of days purchases included within trade creditors at the year end was 26 for the Group and 26 for the Company (2010: 40 for Group and 27 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 25. 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 25.

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.

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

Post Balance Sheet Events

Post balance sheet events are described in Note 32 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
Keith Henry	—	—
Harry Verkuil	—	21 April 2011
Robert Wilde	—	28 September 2011
Adrian Coates	—	—
Alastair Graham	—	—
Alexey Timofeyev	28 March 2011	—
Alexey Pertin	1 April 2011	—
Sergei Glazunov	20 February 2012	—
Denis Rudev	1 April 2011	20 February 2012

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	Interest at end of year
Keith Henry	Ordinary	150,000	—
Adrian Coates	Ordinary	77,245	—

Changes in the interests of Directors are due to the sale of shares pursuant to the recommended partial cash offer made by Energees Management Limited for 173,128,587 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 19 April 2012 the Company had been notified of the following interests of 3% or more in its issued share capital:

Substantial shareholder	Number of shares	% of issued ordinary share capital
Energees Management Limited *	173,128,587	54.00%
Curzon Alternative Investments Ltd — CIS Natural Resources Fund	51,939,083	16.20%
Investohills Enterprises Ltd	24,385,489	7.61%
Pope Asset Management	24,204,574	7.55%
Platforma Capital Ltd	13,530,303	4.22%

* Energees Management Limited is 100% owned by Energees 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 or 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 includes 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 (2010: $nil) and no political contributions (2010: $nil).

Statement of Disclosure to Auditor

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

- so far as the 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 section 418 of the Companies Act 2006.

Auditors

A resolution to re-appoint Deloitte LLP as Auditors will be proposed at the next Annual General Meeting.

By order of the Board

Keith Henry
Director
19 April 2012

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 2011 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 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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, 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other 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.

David Paterson (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
19 April 2012

Consolidated Income Statement

for the year ended 31 December 2011

	Notes	2011 $000	2010 $000
Continuing operations			
Revenue	3	**19,069**	29,033
Cost of sales	4	**(10,125)**	(13,454)
Gross profit		**8,944**	15,579
Share-based charge	25	**(780)**	(2,687)
Other administrative expenses	4	**(16,099)**	(30,024)
Total administrative expenses		**(16,879)**	(32,711)
Operating loss		**(7,935)**	(17,132)
Interest income	3	**253**	414
Other finance income	9	**1,085**	—
Finance costs	10	**(282)**	(4,445)
Other gains and losses	6	**114**	(2,326)
Loss on ordinary activities before taxation	4	**(6,765)**	(23,489)
Income tax credit/(expense)	11	**3,460**	(1,317)
Loss for the year from continuing operations		**(3,305)**	(24,806)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	12	**9,713**	(15,770)
Profit/(loss) for the year		**6,408**	(40,576)
Loss per ordinary share (cents) from continuing operations			
Basic and diluted	14	**(1.0)¢**	(5.0)¢
Profit/(loss) per ordinary share (cents) from total operations			
Basic and diluted	14	**2.0¢**	(12.8)¢

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	2011 $000	2010 $000
Equity — foreign currency translation	**(8)**	(1,740)
Net expense recognised directly in equity	**(8)**	(1,740)
Profit/(loss) for the year	**6,408**	(40,576)
Total comprehensive profit/(loss) for the year	**6,400**	(42,316)

Company Statement of Comprehensive Income

for the year ended 31 December 2011

	2011 $000	2010 $000
Profit/(loss) for the year	**2,904**	(41,941)
Total comprehensive profit/(loss) for the year	**2,904**	(41,941)

Consolidated Balance Sheet

at 31 December 2011

	Note	2011 $000	2010 $000
Assets			
Non-current assets			
Intangible assets	15	**84**	2,347
Property, plant and equipment	16	**225,300**	229,675
Trade and other receivables	19	**12,207**	18,112
		237,591	250,134
Current assets			
Inventories	18	**9,139**	9,689
Assets held for sale	12	**786**	11,202
Trade and other receivables	19	**16,734**	6,376
Other financial assets	20	**—**	1,547
Cash and cash equivalents	20	**19,694**	23,265
		46,353	52,079
Total assets		**283,944**	302,213
Liabilities			
Current liabilities			
Trade and other payables	21	**(2,370)**	(24,982)
Current tax liabilities		**(41)**	—
Provisions	23	**(454)**	—
Liabilities directly associated with assets classified as held for sale	12	**(12)**	(125)
		(2,877)	(25,107)
Net current assets		**43,476**	26,972
Non-current liabilities			
Trade and other payables	22	**(9)**	(21)
Provisions	23	**(6,372)**	(5,885)
Deferred tax	24	**(2,468)**	(6,345)
		(8,849)	(12,251)
Total liabilities		**(11,726)**	(37,358)
Net assets		**272,218**	264,855
Equity			
Called up share capital	25	**28,115**	27,932
Share premium account		**555,090**	555,090
Other reserves	26	**4,433**	15,617
Retained deficit		**(315,420)**	(333,784)
Total equity		**272,218**	264,855

The financial statements of Regal Petroleum plc, Company number 4462555, were approved by the Board of Directors and authorised for issue on 19 April 2012. They were signed on its behalf by:

Keith Henry
Director

Consolidated Statement of Changes in Equity

at 31 December 2011

	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

	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 2011	**27,932**	**555,090**	**11,176**	**(3,204)**	**7,477**	**168**	**(333,784)**	**264,855**
Retained profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**6,408**	**6,408**
Current year IFRS 2 charge	**—**	**—**	**780**	**—**	**—**	**—**	**—**	**780**
Exchange differences	**—**	**—**	**—**	**—**	**—**	**(8)**	**—**	**(8)**
Transfer for options exercised or expired	**183**	**—**	**(11,956)****	**—**	**—**	**—**	**11,956**	**183**
At 31 December 2011	**28,115**	**555,090**	**—**	**(3,204)**	**7,477**	**160**	**(315,420)**	**272,218**

* See Note 26.
** The partial acquisition of the Company by Energees Management Limited in March 2011 triggered the automatic vesting of share options (see Note 5).

Consolidated Cash Flow Statement

for the year ended 31 December 2011

	Notes	2011 $000	2010 $000
Operating activities			
Cash (used in)/from operations	28	**(21,365)**	14,348
Interest paid		**(34)**	(38)
Taxation paid		**(182)**	(1,285)
Interest received		**256**	—
Net cash (used in)/from operating activities		**(21,325)**	13,025
Investing activities			
Proceeds from sale of discontinued operations	12	**23,283**	—
Purchase tax payment relating to sale of discontinued operation	12	**(3,219)**	—
Purchase of property, plant and equipment		**(4,136)**	(78,436)
Increase in related purchase tax receivable		**(396)**	(11,192)
Purchase of intangible assets		**(255)**	(4,447)
Purchase of materials inventory		**(971)**	(11,151)
Proceeds from sale of materials inventory		**1,427**	—
Proceeds from sale of property, plant and equipment		**5**	1
Net cash provided by/(used in) investing activities		**15,738**	(105,225)
Financing activities			
Proceeds from issue of shares	25	**183**	222
Interest received on surplus funds from share issue		**—**	420
Decrease/(increase) in other financial assets*		**1,547**	(1,547)
Net cash from/(used in) financing activities		**1,730**	(905)
Net decrease in cash and cash equivalents		**(3,857)**	(93,105)
Cash and cash equivalents at beginning of year		**23,265**	118,592
Effect of foreign exchange rate changes		**297**	(2,222)
Cash and cash equivalents at end of year	20	**19,705****	23,265

* Represents the movement of funds held in escrow (see Note 20b).

** Includes cash and cash equivalents classified as held for sale of $11,000 (see Note 12).

Company Balance Sheet

at 31 December 2011

	Notes	2011 $000	2010 $000
Assets			
Non-current assets			
Intangible assets	15	**41**	91
Property, plant and equipment	16	**85**	145
Investments	17	**17,279**	17,279
Loans to Group undertakings	17	**240,257**	240,352
Trade and other receivables	19	**1,049**	—
		258,711	257,867
Current assets			
Trade and other receivables	19	**3,978**	1,535
Other financial assets	20	**—**	1,547
Cash and cash equivalents	20	**12,897**	22,553
		16,875	25,635
Total assets		**275,586**	283,502
Liabilities			
Current liabilities			
Trade and other payables	21	**(638)**	(13,030)
Provisions	23	**(324)**	—
		(962)	(13,030)
Net current assets		**15,913**	12,605
Non-current liabilities			
Provisions	23	**(285)**	—
Total liabilities		**(1,247)**	(13,030)
Net assets		**274,339**	270,472
Equity			
Called up share capital	25	**28,115**	27,932
Share premium account		**555,090**	555,090
Share option reserve		**—**	11,176
Retained deficit		**(308,866)**	(323,726)
Shareholders' funds		**274,339**	270,472

These financial statements were approved by the Board of Directors and authorised for issue on 19 April 2012.
They were signed on its behalf by:

Keith Henry
Director

Company Statement of Changes in Equity

at 31 December 2011

	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

	Share capital $000	**Share premium account $000**	**Equity share option reserve $000**	**Retained deficit $000**	**Total $000**
At 1 January 2011	**27,932**	**555,090**	**11,176**	**(323,726)**	**270,472**
Retained profit for the year	**—**	**—**	**—**	**2,904**	**2,904**
Current year IFRS 2 charge	**—**	**—**	**780**	**—**	**780**
Transfer for options exercised or expired	**183**	**—**	**(11,956)***	**11,956**	**183**
At 31 December 2011	**28,115**	**555,090**	**—**	**(308,866)**	**274,339**

* The partial acquisition of the Company by Energees Management Limited in March 2011 triggered the automatic vesting of share options (see Note 5).

Company Cash Flow Statement

for the year ended 31 December 2011

	Notes	2011 $000	2010 $000
Operating activities			
Cash used in operations	28	**(23,416)**	(7,144)
Interest received		**72**	—
Net cash used in operating activities		**(23,344)**	(7,144)
Investing activities			
Purchase of property, plant and equipment		**(15)**	(117)
Proceeds from sale of discontinued operation	12	**22,651**	—
Purchase tax payment relating to sale of discontinued operation	12	**(3,219)**	—
Investment in Group companies		**(14,304)**	(83,551)
Repayment of loans to Group companies		**6,350**	—
Net cash provided by/(used in) investing activities		**11,463**	(83,668)
Financing activities			
Proceeds from issue of shares	25	**183**	222
Interest received on surplus funds from share issue		**—**	399
Decrease/(increase) in other financial assets*		**1,547**	(1,547)
Net cash from/(used in) financing activities		**1,730**	(926)
Net decrease in cash and cash equivalents		**(10,151)**	(91,738)
Cash and cash equivalents at beginning of year		**22,553**	116,815
Effect of foreign exchange rate changes		**495**	(2,524)
Cash and cash equivalents at end of year	20	**12,897**	22,553

* Represents the movement of funds held in escrow (see Note 20b).

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 16 Old Queen Street, London, SW1H 9HP 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.

On 8 June 2011, the Company announced that it had altered its accounting reference date from 31 December to 30 December to enable the Company to slightly delay the posting of the Notice of AGM and 2010 Annual Report and Accounts to shareholders, in anticipation of receiving the result of a Court hearing relating to a Ministry Order in Ukraine. For good order, the Company changed the accounting reference date back to 31 December during the year.

Going Concern

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

Basis of Preparation

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.

- IAS 24 Revised — Related Party Disclosures
- IFRS 7 Amendment — Transfer of financial assets

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's financial statements from 2012 or later periods, but the Group has not early adopted them.

- IAS 1 — Presentation of Items of Other Comprehensive Income
- IAS 12 — Deferred Tax: Recovery of Underlying Assets
- IAS 19 — Employee Benefits
- IAS 27 — Separate Financial Statements
- IAS 28 — Investments in Associates and Joint Ventures
- IAS 32 — Offsetting Financial Assets and Financial Liabilities
- 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

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.

1. Accounting Policies continued

Basis of Consolidation

The consolidated financial information incorporates the financial information of the Company and entities controlled by the Company (and 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.

Commercial Reserves

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

Oil and Gas Exploration Assets and Development/Producing Assets

The Group applies the successful efforts method of accounting for oil and gas assets, having regard to the requirements of IFRS 6 "Exploration for and Evaluation of Mineral Resources".

All licence acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets in cost centres by field or by exploration area, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalised insofar as they relate to specific exploration activities, as are finance costs to the extent they are directly attributable to financing development projects. Pre-licence costs and general exploration costs not specific to any particular licence or prospect are expensed as incurred.

If prospects are deemed to be impaired ("unsuccessful") on completion of the evaluation, the associated costs are charged to the income statement. If the field is determined to be commercially viable, the attributable costs are transferred to development/production assets within property, plant and equipment in single field cost centres.

Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Income Statement. Net proceeds from any disposal of development/producing assets are credited against the previously capitalised cost. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Notes continued

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1. Accounting Policies continued

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.

Decommissioning

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. The cost of the relevant property, plant and equipment is increased with an amount equivalent to the provision and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset. The unwinding of the discount on the decommissioning provision is included within finance costs.

Intangible Assets other than Oil and Gas Assets

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

Property, Plant and Equipment other than Oil and Gas Assets

Property, plant and equipment other than oil and gas assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives as follows:

Fixtures, fittings and equipment	20–25% per annum straight-line
Motor vehicles (including vehicles under finance leases)	20–25% per annum straight-line
Plant and machinery	20–25% per annum straight-line

1. Accounting Policies continued

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. To the extent that revenue arises from test production during an evaluation programme, an amount is charged from intangible exploration assets to cost of sales so as to reflect a zero net margin. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign Currencies

The Group's consolidated accounts are presented in US Dollars. The functional and presentation currencies of some subsidiary companies are in currencies other than US Dollars.

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.

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1. Accounting Policies continued

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.

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.

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/receivable under operating leases are charged/credited to the income statement on a straight-line basis over the term of the relevant lease. Benefits received or given 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.

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.

1. Accounting Policies continued

Other taxes which include recoverable value added tax, sales tax and custom duties represent the amounts receivable or payable to local tax authorities in the countries where the Group operates.

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 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.

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.

Notes continued

forming part of the financial statements

1. Accounting Policies continued

Share-Based Transactions

The Group has applied the requirements of IFRS 2 “Share-based payments”. All share-based awards of the Group outstanding at 31 December 2011 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.

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

According to the Group’s accounting policies, costs capitalised as assets are assessed for impairment at each balance sheet date. This assessment involves judgment as to future revenues and costs pertaining to the asset and the discount rate to be applied for the purposes of deriving a recoverable value.

(b) Decommissioning

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

(c) 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, future oil prices and also take into consideration the Group’s latest development plan for the associated oil and gas asset.

(d) 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 19 for further details.

Romanian purchase tax paid of $3,219,000 relating to the disposal of the Group’s Barlad concession in Romania (see Note 12) is recorded within trade and other receivables. While the exact timing of the recovery of this amount is difficult to determine, management estimate it to be recovered within one year.

3. Segmental Information

In line with Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, who review internal monthly management reports, budget and forecast information as part of this. Accordingly the Board of Directors is deemed to be the 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, with its head office in the United Kingdom. These geographical regions are the basis on which the Group reports its segment information.

Details of the discontinued operations can be found in Note 12.

	Ukraine 2011 $000	**United Kingdom 2011 $000**	**Total continuing operations 2011 $000**	**Egypt 2011 $000**	**Romania 2011 $000**	**Total discontinued operations 2011 $000**	**Total 2011 $000**
Turnover							
Gas sales	**13,961**	**—**	**13,961**	**—**	**473**	**473**	**14,434**
Condensate sales	**5,108**	**—**	**5,108**	**—**	**—**	**—**	**5,108**
Total sales (incl. sales to third parties)	**19,069**	**—**	**19,069**	**—**	**473**	**473**	**19,542**
Impairment loss	**—**	**—**	**—**	**—**	**(655)**	**(655)**	**(655)**
Segment result	**8,228**	**(11,098)***	**(2,870)**	**360**	**(1,752)**	**(1,392)**	**(4,262)**
Depreciation and amortisation			**(4,285)**			**—**	**(4,285)**
Share-based charge			**(780)**			**—**	**(780)**
Operating loss			**(7,935)**			**(1,392)**	**(9,327)**
Segment assets	**262,966**	**20,192**	**283,158**	**—**	**786**	**786**	**283,944**
Capital additions	**994**	**15**	**1,009**	**7**	**294**	**301**	**1,310**

* Including transaction costs of $4.3 million (see Note 5).

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 from continuing operations of $13,961,000 (2010: $21,086,000) are with one single external party with which the Group has an agreement. Total of revenue generated from operating and interest revenue is $19,322,000 (2010: $29,447,000).

	Ukraine 2010 $000	United Kingdom 2010 $000	Total continuing operations 2010 $000	Egypt 2010 $000	Romania 2010 $000	Total discontinued operations 2010 $000	Total 2010 $000
Turnover							
Gas sales	21,086	—	21,086	—	—	—	21,086
Condensate sales	7,947	—	7,947	—	—	—	7,947
Total sales (incl. sales to third parties)	29,033	—	29,033	—	—	—	29,033
Impairment loss	—	—	—	(4,376)	(10,928)	(15,304)	(15,304)
Segment result	8,819	(18,491)*	(9,672)	(4,556)	(11,210)	(15,766)	(25,438)
Depreciation and amortisation			(4,773)			(4)	(4,777)
Share-based charge			(2,687)			—	(2,687)
Operating loss			(17,132)			(15,770)	(32,902)
Segment assets	260,602	26,992	287,594	1,105	13,514	14,619	302,213
Capital additions	82,793	117	82,910	82	3,480	3,562	86,472

* Including $11.9 million to release the Company from obligations and liabilities between Saipem and Regal (see Note 21).

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4. Loss on Ordinary Activities Before Taxation

	Continuing operations	
	2011	2010
	$000	$000
Loss on ordinary activities before taxation is stated after charging		
Included within cost of sales		
Depreciation	**4,032**	4,507
Production based taxes	**2,621**	2,883
Cost of inventories recognised as an expense	**538**	837
Write downs of inventories recognised as an expense	**1,100**	3,667
Included within administrative expenses		
Auditors' remuneration (see below)	**458**	528
Depreciation	**199**	200
Amortisation of intangible assets	**54**	66
Staff costs (see Note 8)	**7,640**	9,991
Transaction costs (see Note 5)	**4,266**	—
Contract settlement charges (see Note 21)	**—**	18,663

	2011	2010
	$000	$000
Audit of the Company	**162**	239*
Audit of Company's subsidiaries	**42**	52
Total audit	**204**	291
Audit related assurances services — interim review	**56**	55
Total assurance services	**260**	346
Tax compliance services	**25**	20
Tax advisory services	**101**	59
Corporate finance services	**72**	103
Total non-audit services	**198**	182
Total audit and other services	**458**	528

* Includes $62,000 for the audit of the 2010 accounts, charged in 2011.

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

The above does not include fees for corporate finance services of $521,000 paid to Deloitte LLP in 2011 (2010: $nil) with respect to transaction costs for a potential acquisition, which were fully reimbursed by the counterparty.

5. Transaction costs

On 10 December 2010 the Boards of Regal and Energees Investments Limited announced that they had reached an agreement on the terms of a recommended cash offer to be made by Energees Management Limited to the shareholders of the Company. On 6 February 2011 Energees Investments Limited and Regal announced the terms of an increased, recommended partial offer of 38 pence to be made by Energees Management Limited. The transaction was declared wholly closed on 4 March 2011 and the Company is now 54% owned by Energees Management Limited, which in turn is 100% owned by Energees Investments Limited. Energees Investments Limited is a company which is jointly controlled by Mr V Novinskiy and Mr A Klyamko. This resulted in transaction costs of $4,266,000 principally relating to advisers' fees.

6. Other Net Gains and Losses

	2011 $000	2010 $000
Equipment rental income	**111**	—
Losses on disposal of inventory	**(35)**	—
Unrealised foreign exchange losses	**(44)**	(637)
Realised foreign exchange gain/(losses)	**82**	(1,689)
	114	(2,326)

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

	2011 $000	2010 $000
Directors' emoluments	**1,456**	1,944

The emoluments of the individual Directors were as follows:

	Basic salary and fees 2011 $000	Bonus 2011 $000	Benefits in kind 2011 $000	Aggregate emoluments 2011 $000	Pension contributions 2011 $000	**Total emoluments 2011 $000**	Total emoluments 2010 $000
Keith Henry	401	100	—	501	—	**501**	244
Robert Wilde	314	—	21	335	34	**369**	429
Harry Verkuil	120	—	6	126	28	**154**	484
Denis Rudev	88	—	—	88	—	**88**	—
David Greer	—	—	—	—	—	**—**	665
Adrian Coates	64	—	—	64	—	**64**	62
Alastair Graham	64	—	—	64	—	**64**	60
Alexey Timofeyev	48	120	—	168	—	**168**	—
Alexey Pertin	48	—	—	48	—	**48**	—
	1,147	220	27	1,394	62	**1,456**	1,944

During 2011, Harry Verkuil received $164,000 in consulting fees for drilling and operational management services which are not included in the above table.

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7. Remuneration of Directors continued

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by Directors (2010: 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 ($)
Keith Henry	283,334	0.05	0.38	149,984
Harry Verkuil	383,750	0.05	0.38	203,139
Robert Wilde	533,750	0.05	0.38	282,542
Adrian Coates	93,334	0.05	0.38	49,407

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

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. There were no outstanding options to Directors as at 31 December 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:

	Number of employees 2011	2010
Group		
Management/operational	**119**	126
Administrative support	**30**	43
	149	169

The aggregate staff costs of these employees were as follows:

	2011 $000	2010 $000
Wages and salaries	**5,549**	5,618
Social security costs	**379**	670
Pension costs	**932**	1,016
Share option charge (see Note 25)	**780**	2,687
	7,640	9,991

9. Other finance Income

	2011 $000	2010 $000
Unwinding of discount on long term receivables (see Note 19)	**1,085**	—

10. Finance Costs

	2011 $000	2010 $000
Interest on obligations under finance leases	**34**	38
Unwinding of discount on decommissioning provision	**248**	159
Discounting adjustment on long term receivables (see Note 19)	**—**	4,248
	282	4,445

11. Taxation

a) Analysis of (credit)/charge in period:

	Continuing operations		Discontinued operations		Total	
	2011 $000	2010 $000	**2011 $000**	2010 $000	**2011 $000**	2010 $000
Current tax						
Overseas – current year	**417**	864	**2,045**	—	**2,462**	864
Deferred tax						
UK — current year	**856**	2,202	**—**	—	**856**	2,202
UK — prior year	**(4,733)**	(1,749)	**—**	—	**(4,733)**	(1,749)
	(3,460)	1,317	**2,045**	—	**(1,415)**	1,317

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:

	2011 $000	2010 $000
Current tax reconciliation		
Loss before tax from continuing operations	**(6,765)**	(23,489)
Current tax credit at UK tax rate of 26.5% (2010: 28%)	**(1,793)**	(6,577)
Effects of:		
Tax effect of the application of overseas tax rates	**(342)**	117
Tax effect of expenses not deductible in determining taxable profit	**6,205**	1,773
Tax effect of reduction in temporary differences	**(984)***	—
Tax effect of losses (utilised)/not recognised	**(1,813)**	7,754
Tax effect of prior year adjustments	**(4,733)****	(1,750)
Tax (credit)/charge for the year	**(3,460)**	1,317

* Including the impact on deferred tax due to the reduction in the UK tax rate outlined in Note 24.

** Primarily as a result of a decision to disclaim capital allowances, and instead utilise Group losses for which no deferred tax asset was previously recognised.

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12. Discontinued operations

On 27 January 2011, the Group entered into a conditional sale and purchase agreement with Apache East Ras Budran Corporation LDC ("Apache") in respect of the sale of its 25% non-operated interest in the East Ras Budran Concession in Egypt. The consideration payable under the sale and purchase agreement was $1,100,000, subject to working capital adjustments under the existing joint venture between the Group and Apache, which resulted in net receipts to the Group of $640,344 at closing of the sale on 7 July 2011. No material gain or loss arose on this transaction in 2011 as the asset had been written down to the sale price in 2010, resulting in an impairment charge of $4,376,000.

On 29 September 2010, the Company entered into a conditional sale and purchase agreement with Chevron Romania Exploration and Production BV for the sale of Regal's 100% owned Barlad Concession in Romania for a cash consideration of $25.0 million. The sale was completed on 14 February 2011, with sales proceeds received, net of taxes and associated costs, amounting to $22.7 million. Associated recoverable purchase tax payments of $3.2 million were made, and are included in trade and other receivables due in less than one year (net of subsequent exchange losses of $0.4 million). The asset was classified as held for sale in the December 2010 accounts.

The Directors are of the opinion that the assets of Regal Petroleum Romania SRL, through which the Group holds its remaining interests in Romania, will be recovered through corporate sale rather than continued use and intend to divest of their interest in the concession, which the subsidiary holds. This is anticipated to happen within one year and based on the Board's assessment of market value, has resulted in an impairment charge on the Group's Suceava concession in Romania of $655,000. An impairment charge of $10,928,000 was recorded in 2010 for the Suceava concession based on the latest estimates of the fair value less cost to sell at the time, which in turn was based on an estimate of the net present value of a discovery within the concession.

The assets and liabilities of Regal Petroleum Romania SRL have been classified as held for sale as at December 2011.

The results of these discontinued operations are shown below.

	2011 $000	2010 $000
East Ras Budran (Egypt)		
Income/(expenses)	**360**	(4,556)*
Net profit/(loss) attributable to discontinued operation	**360**	(4,556)

* Including an impairment charge of $4,376,000.

	2011 $000	2010 $000
Barlad (Romania)		
Expenses	**(719)**	–
Attributable tax expense	**–**	–
Profit on disposal of discontinued operation	**13,150**	–
Attributable tax expense	**(2,016)**	–
Net profit attributable to discontinued operation	**10,415**	–

	2011 $000	2010 $000
Regal Petroleum Romania SRL*		
Revenue	**473**	–
Expenses**	**(1,506)**	(11,214)
Loss before tax	**(1,033)**	(11,214)
Attributable tax expense	**(29)**	–
Net loss attributable to discontinued operation	**(1,062)**	(11,214)

* Excludes results associated with the Barlad concession, which are shown separately above.
** Including impairment charge of $655,000 in 2011 (2010: $10,928,000).

12. Discontinued operations continued

Cash flows for the periods are summarised below:

	2011 $000	2010 $000
East Ras Budran (Egypt)		
Operating activities	**(29)**	(29)
Investing activities		
— net proceeds from sale of discontinued operation	**632**	—
— other	**(7)**	(39)
	596	(68)

	2011 $000	2010 $000
Barlad (Romania)		
Operating activities	**(719)**	—
Investing activities		
— net proceeds from sale of discontinued operation	**22,651**	—
— other	**(3,219)**	(2,922)
	18,713	(2,922)

	2011 $000	2010 $000
Regal Petroleum Romania SRL*		
Operating activities	**(349)**	(325)
Investing activities	**(224)**	(1,468)
	(573)	(1,793)

* Excludes cash flows associated with the Barlad concession, which are shown separately above.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2011 Regal Petroleum Romania SRL $000	2010 Barlad $000
Assets classified as held for sale		
Intangible exploration assets	**509**	11,202
Inventory	**70**	—
Trade and other receivables	**196**	—
Cash and cash equivalents	**11**	—
	786	11,202

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12. Discontinued operations continued

	2011 Regal Petroleum Romania SRL $000	2010 Barlad $000
Liabilities associated with assets classified as held for sale		
Trade and other payables	**12**	125
	12	125

13. Profit 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 profit for the period includes a parent Company profit after tax of $2,904,000 for the year ended 31 December 2011 (2010: loss of $41,941,000).

14. Earnings per Share

The calculation of basic profit or loss per ordinary share has been based on the profit or loss for the period and 320,183,644 (2010: 318,217,768) ordinary shares, being the average number of shares in issue for the period. The impact of potentially dilutive instruments (share options) is either insignificant or, for the periods for which there was a loss, anti-dilutive.

15. Intangible Fixed Assets

	2011				2010			
	Exploration assets		**Computer**		Exploration assets		Computer	
	Romania $000	**Egypt $000**	**Software $000**	**Total $000**	Romania $000	Egypt $000	Software $000	Total $000
Group								
Cost								
At beginning of year	**12,054**	**5,477**	**504**	**18,035**	21,506	5,395	484	27,385
Additions	**294**	**7**	**24**	**325**	3,477	82	20	3,579
Income from test production	**(301)**	**—**	**—**	**(301)**	—	—	—	—
Reclassified as asset held for sale (see Note 12)	**(11,681)**	**—**	**—**	**(11,681)**	(11,202)	—	—	(11,202)
Disposals	**—**	**(5,484)**	**(127)**	**(5,611)**	—	—	—	—
Effect of movement in foreign exchange	**(366)**	**—**	**—**	**(366)**	(1,727)	—	—	(1,727)
At end of year	**—**	**—**	**401**	**401**	12,054	5,477	504	18,035
Amortisation and impairment								
At beginning of year	**10,928**	**4,376**	**384**	**15,688**	—	—	318	318
Charge for year	**—**	**—**	**54**	**54**	—	—	66	66
Impairment losses	**655**	**—**	**—**	**655**	10,928	4,376	—	15,304
Reclassified as asset held for sale (see Note 12)	**(11,172)**	**—**	**—**	**(11,172)**	—	—	—	—
Disposals	**—**	**(4,376)**	**(121)**	**(4,497)**	—	—	—	—
Effect of movement in foreign exchange	**(411)**	**—**	**—**	**(411)**	—	—	—	—
At end of year	**—**	**—**	**317**	**317**	10,928	4,376	384	15,688
Net book value at 31 December	**—**	**—**	**84**	**84**	1,126	1,101	120	2,347

15. Intangible Fixed Assets continued

	2011 Computer Software $000	2010 Computer Software $000
Company		
Cost		
At beginning of year	**407**	407
Disposals	**(128)**	—
At end of year	**279**	407
Amortisation		
At beginning of year	**316**	256
Charge for year	**44**	60
Disposals	**(122)**	—
At end of year	**238**	316
Net book value at 31 December	**41**	91

16. Property, Plant and Equipment

	2011			2010		
	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	**242,141**	**1,676**	**243,817**	159,458	1,474	160,932
Additions	**932**	**53**	**985**	82,683	210	82,893
Reclassified as asset held for sale (see Note 12)	**—**	**(56)**	**(56)**	—	—	—
Disposals	**(1,104)**	**(647)**	**(1,751)**	—	(5)	(5)
Effect of movement in foreign exchange	**—**	**(1)**	**(1)**	—	(3)	(3)
At end of year	**241,969**	**1,025**	**242,994**	242,141	1,676	243,817
Depreciation						
At beginning of year	**12,903**	**1,239**	**14,142**	8,396	1,044	9,440
Charge for year	**4,032**	**199**	**4,231**	4,507	204	4,711
On disposals	**—**	**(622)**	**(622)**	—	(5)	(5)
Reclassified as asset held for sale (see Note 12)	**—**	**(56)**	**(56)**	—	—	—
Effect of movement in foreign exchange	**—**	**(1)**	**(1)**	—	(4)	(4)
At end of year	**16,935**	**759**	**17,694**	12,903	1,239	14,142
Net book value at 31 December	**225,034**	**266**	**225,300**	229,238	437	229,675

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16. Property, Plant and Equipment continued

	2011 Other fixed assets* $000	2010 Other fixed assets* $000
Company		
Cost		
At beginning of year	**758**	641
Additions	**15**	117
Disposals	**(600)**	—
At end of year	**173**	758
Depreciation		
At beginning of year	**613**	560
Charge for year	**54**	53
On disposals	**(579)**	—
At end of year	**88**	613
Net book value at 31 December	**85**	145

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

17. Fixed Asset Investments

	Shares in subsidiary undertakings $000	Loans to subsidiary undertakings $000	Total $000
Company			
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
Cost			
At 1 January 2011	**17,279**	**240,352**	**257,631**
Additions	**—**	**24,112**	**24,112**
Repayments	**—**	**(18,747)**	**(18,747)**
Provision against subsidiary loans	**—**	**(5,460)**	**(5,460)**
At 31 December 2011	**17,279**	**240,257**	**257,536**

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 Romanian assets, and the sale of the Group's East Ras Budran concession in Egypt, a provision against the carrying value of loans between the Company and other Group companies in which these assets are held has been recorded.

17. Fixed Asset Investments continued

Subsidiary undertakings

At 31 December 2011, the Company's subsidiary undertakings, all of which are included in the consolidated financial statements, were:

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

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

Regal Petroleum Romania SRL has been classified as held for sale in the 2011 accounts (see Note 12).

18. Inventories

	Group	
	2011	2010
	$000	$000
Materials	**8,990**	9,604
Condensate stock	**149**	85
	9,139	9,689

Management believe that the majority of the stock currently held will be used in the drilling programme. This stock is currently held at written down value, due to historic impairment charges, as a result of the curtailment of the 2010 drilling programme in Ukraine.

A review of the inventory at 31 December 2011 has resulted in a write down of materials inventory of $1,100,000 (2010: $3,667,000), which has been recorded within cost of sales in the income statement. During 2011 certain items of material inventory were sold resulting in a $45,000 (2010: $nil) reversal of the prior year impairment.

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19. Trade and Other Receivables

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Non-current				
Purchase tax receivable	**11,158**	18,112	**—**	—
Other receivables	**1,049**	—	**1,049**	—
	12,207	18,112	**1,049**	—

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Current				
Trade receivables	**2,595**	40	**—**	—
Amounts owed by Group undertakings	**—**	—	**—**	38
Prepayments and accrued income	**3,072**	2,136	**651**	648
Corporation tax receivable	**34**	300	**—**	—
Purchase tax receivable	**10,727**	3,635	**3,021**	196
Other receivables	**306**	265	**306**	653
	16,734	6,376	**3,978**	1,535

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

Current purchase tax receivable in respect of the Group includes $7,710,000 (2010: $2,800,000) 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 $11,158,000 (2010: $18,112,000) 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. This resulted in a corresponding finance charge of $4,248,000 in 2010, and finance income during 2011 of $1,085,000, for the unwinding of the discount.

In addition, purchase tax receivable by the Company of $2,820,000 is recorded in relation to the disposal of the Barlad concession in Romania which management believe is recoverable within one year (see Note 12).

Non-current other receivables in 2011 of $1,049,000 (2010: $nil) represents balances owed by third parties in relation to the Group's previous drilling programme in Ukraine.

20. Cash, Cash Equivalents and Other Financial Assets

a. Cash and Cash Equivalents

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Cash at bank and on hand	**2,373**	781	**350**	69
Short-term deposits	**17,321**	9,434	**12,547**	9,434
Restricted cash	**—**	13,050	**—**	13,050
	19,694	23,265	**12,897**	22,553

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.

20. Cash Equivalents and Other Financial Assets continued

Restricted cash in 2010 comprised of $13,050,000 held as a letter of credit for fees payable with respect to the termination of the Saipem drilling contracts.

b. Other financial assets

Other financial assets for the Group and Company in 2010 comprised $1,547,000 held in escrow for professional fees relating to the partial offer from Energees Management Limited (see Note 5). These funds were released in 2011.

21. Trade and Other Payables

	Group		Company	
	2011 $000	2010 $000	**2011 $000**	2010 $000
Trade payables	**443**	1,367	**133**	146
Taxation and social security	**323**	186	**—**	—
Accruals and deferred income	**1,604**	23,429	**505**	12,884
	2,370	24,982	**638**	13,030

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

Included within accruals and deferred income in 2010 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.

22. Obligations Under Finance Leases

	2011 $000	2010 $000
Amounts payable under finance leases:		
Within one year	**22**	79
In the second to fifth years inclusive	**12**	31
	34	110
Less future finance, service and insurance charges	**(11)**	(38)
Present value of lease obligations	**23**	72
Amount due for settlement within 12 months (shown under current liabilities)	**14**	51
Amount due for settlement after 12 months	**9**	21

The finance leases relate to motor vehicles in Ukraine. The average lease term is three years. For the year ended 31 December 2011, the average effective borrowing rate was 13.19% (2010: 14.19%). 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 2011, the carrying value of these assets was $60,000 (2010: $113,000).

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

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23. Provisions for Liabilities and Charges

	Provision for decommissioning $000	Other* $000	Total $000
Group			
At beginning of year	5,841	44	5,885
Amounts provided	—	693	693
Unwinding of discount	248	—	248
At end of year	**6,089**	**737**	**6,826**

	Other* $000	Total $000
Company		
At beginning of year	—	—
Amounts provided	609	609
At end of year	**609**	**609**

* Other provisions include a number of immaterial items including office dilapidation costs of $278,000 to be paid in 2013 (2010: $nil).

	Company		Group	
	2011 $000	2010 $000	**2011 $000**	2010 $000
Current	**324**	—	**454**	—
Non-current	**285**	—	**6,372**	5,885
	609	—	**6,826**	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.

24. Deferred Tax

	2011 **$000**	2010 $000
Group		
At beginning of year	**6,345**	5,892
Charged to income statement — current year	**856**	2,202
Credited to income statement — prior year	**(4,733)**	(1,749)
At end of year	**2,468**	6,345

At 31 December 2011 and in gross terms, there were unrecognised deferred tax assets in respect of estimated tax losses carried forward of approximately $125 million (31 December 2010: $162 million). The majority of this (approximately $118 million) relates to UK tax losses which can be carried forward indefinitely. The remaining balance (approximately $7 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 2011, as there is insufficient evidence of future taxable Group profits.

Factors affecting future tax charge

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.

On 22 March 2012 the UK Government announced that the main rate of corporation tax would reduce to 24% with effect from 1 April 2012, and is expected to fall in stages by 1% to 22% by 2014. This is not expected to have a material effect on the Group's tax balances. The effect of these tax rate reductions on deferred tax balances will be accounted for in the period in which the tax rate reductions are substantively enacted. The Group has recognised deferred tax at 25%, which is the rate that was enacted by the balance sheet date.

25. Called up Share Capital

	2011		2010	
	Number	**$000**	Number	$000
Allotted, called up and fully paid				
Opening balance at 1 January	**318,366,876**	**27,932**	315,645,664	27,710
Issued during the year:				
— Exercise of share options	**2,270,960**	**183**	2,721,212	222
Closing balance at 31 December	**320,637,836**	**28,115**	318,366,876	27,932

There are no restrictions over ordinary shares issued.

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 over specified periods of time 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.

As a result of the unconditional offer by Energees Management Limited to shareholders of the Company (see Note 5) all LTIP awards held at this date automatically vested and were exercised. There are no LTIP awards currently outstanding.

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25. Called up Share Capital continued

Share Option Scheme

The 2004 Share Option Scheme is still in operation, however there are no options outstanding. During 2010 the scheme applied to past Non-Executive Directors whose remaining options granted under the 2004 Share Option Scheme 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.

	2011		2010	
	Number	**WAEP £**	Number	WAEP £
Outstanding at beginning of year	**3,117,560**	**0.442**	7,950,229	0.340
Exercised during the year	**(2,270,960)**	**(0.050)**	(2,721,212)	(0.050)
Expired during the year	**(846,600)**	**(1.500)**	(2,111,457)	(0.597)
Outstanding at end of year	**–**	**–**	3,117,560	0.442
Exercisable at end of year	**–**	**–**	134,500	0.050

The Company recognised a total charge of $780,000 (2010: $2,687,000) in respect of cash and equity settled share-based awards. An amount of $11,956,000 (2010: $9,102,000) was transferred between the equity share option reserve and the retained deficit upon the exercise or lapse or certain awards. 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 Energees Management Limited (see Note 5).

26. 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 retained deficit 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.

27. Operating Lease Arrangements

The Group as lessee

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Minimum lease payments under operating leases recognised as an expense for the year	**588**	520	**466**	375

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:

	2011	2010
	Land and buildings	
	$000	$000
Group and Company		
Amounts payable due:		
— Within one year	**655**	451
— In the second to fifth years inclusive	**113**	677
	768	1,128

Operating lease payments represent rentals payable by the Group for office properties. Leases on office property are negotiated and fixed for an average of 5 years.

The Group as lessor

Property rental income earned from subleasing during the year was $31,000 (2010: $nil).

At the balance sheet date, the Group had contracts with tenants for the following future minimum sublease payments.

	2011	2010
	Land and buildings	
	$000	$000
Group and Company		
Amounts receivable due:		
— Within one year	**410**	—
— In the second to fifth years inclusive	**102**	—
	512	—

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28. Reconciliation of Operating Loss to Operating Cash Flow

	2011 $000	2010 $000
Group		
Operating loss from continuing operations	**(7,935)**	(17,132)
Operating loss from discontinued operations	**(1,392)**	(15,770)
Depreciation, amortisation and impairment charges	**4,940**	20,081
Loss on disposal of intangible assets	**6**	—
Loss on disposal of property, plant and equipment	**21**	—
Write down of inventory (including discontinued operations)	**1,307**	3,667
Movement in provisions	**693**	(102)
Share option charge	**780**	2,687
Decrease/(increase) in condensate stock	**163**	(44)
Decrease in debtors	**956**	3,795
(Decrease)/increase in creditors	**(20,904)**	17,166
Cash (used in)/from operations	**(21,365)**	14,348

	2011 $000	2010 $000
Company		
Operating loss	**(17,269)**	(44,340)
Depreciation, amortisation and impairment charges	**98**	113
Loss on disposal of intangible assets	**6**	—
Loss on disposal of property, plant and equipment	**21**	—
Share option charge	**780**	2,687
Movement in provisions (including against subsidiary loans)	**6,069**	23,094
Increase in debtors	**(666)**	(615)
(Decrease)/increase in creditors	**(12,455)**	11,917
Cash used in operations	**(23,416)**	(7,144)

29. 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 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 deficit.

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, Romanian Lei and Ukraine Hryvnia. The Group does not have any long term borrowings. The main future risks arising from the Group's financial instruments are currently currency risk, interest rate risk, liquidity risk and credit risk.

The Group's financial assets and financial liabilities (excluding those classified as held for sale) comprise of the following. Currencies held in Hryvnia and Romanian Lei are held outside the Company.

29. Financial Instruments continued

Financial Assets

	2011 $000	2010 $000
Group		
Cash and cash equivalents	**19,694**	23,265
Trade and other receivables	**3,950**	510
Other financial assets	**—**	1,547
	23,644	25,322

	2011 $000	2010 $000
Company		
Cash and cash equivalents	**12,897**	22,553
Trade and other receivables	**1,355**	392
Other financial assets	**—**	1,547
	14,252	24,492

Financial Liabilities

	2011 $000	2010 $000
Group		
Trade and other payables	**443**	1,367
Accruals	**1,312**	23,615
	1,755	24,982

	2011 $000	2010 $000
Company		
Trade and other payables	**153**	146
Accruals	**193**	12,884
	346	13,030

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.

	2011 $000	2010 $000
Currency		
British Pounds	**1,041**	3,156
Euros	**1,441**	(3,741)
Ukraine Hryvnia	**8,059**	(1,754)
Romanian Lei	**—**	594
	10,541	(1,745)

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29. Financial Instruments continued

Foreign Currency Sensitivity Analysis

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

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

	Hryvnia currency change		Sterling currency change		Euro currency change	
	2011 $000	2010 $000	**2011 $000**	2010 $000	**2011 $000**	2010 $000
Profit/(loss)						
— 10% strengthening of USD	**(648)**	(8)	**(147)**	(310)	**(39)**	(1,627)
— 10% weakening of USD	**648**	8	**147**	310	**39**	1,627
Other equity						
— 10% strengthening of USD	**(648)**	(8)	**(147)**	(310)	**(39)**	(1,627)
— 10% weakening of USD	**648**	8	**147**	310	**39**	1,627

Interest Rate Risk Management

The Group is not exposed to interest rate risk on financial liabilities as none of the entities in the Group have any external borrowings. The Group does not use interest rate forward contracts and interest rate swap contracts as part of its strategy.

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

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

Interest Rate Sensitivity Analysis

The sensitivity analysis below has been determined based on exposure to interest rates for non-derivative instruments at the balance sheet date. A 0.5% 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% higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2011 would increase by $90,000 in the event of 0.5% higher interest rates and decrease by $83,000 in the event of 0.5% lower interest rates (2010: loss would increase with lower rate by $324,000, and decrease with higher rate by $327,000). 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 (2010: not affected).

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

29. Financial Instruments continued

Liquidity Risk

The Group's objective throughout the year has been to ensure continuity of funding. Operations have primarily been financed through revenue from Ukraine operations and proceeds received as a result of the sale of the Group's Barlad concession in Romania and East Ras Budran concession in Egypt.

Details of the Group's cash management are explained in Note 20.

Liquidity risk for the Group is further detailed under the Going Concern section of the Directors' Report.

Credit risk

Credit risk principally arises in respect of the Group's cash balance. In the UK, where the majority ($12.9 million) of the overall cash is held, the Group only deposits cash surpluses with major banks of high quality credit standing.

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 2011 with an exposure to interest rate risk:

	Total $000	**2011 Floating rate financial assets $000**	**Fixed rate financial assets $000**	Total $000	2010 Floating rate financial assets $000	Fixed rate financial assets $000
Currency						
British Pounds	**1,470**	**1,470**	**–**	3,098	3,098	–
US Dollars	**11,352**	**11,352**	**–**	3,445	3,445	–
Euros	**392**	**392**	**–**	16,270	16,270	–
Ukraine Hryvnia	**6,480**	**6,480**	**–**	79	79	–
Romanian Lei	**–**	**–**	**–**	373	373	–
	19,694	**19,694**	**–**	23,265	23,265	–

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 (2010: $nil).

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

Maturity of Financial Liabilities

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

	2011 $000	2010 $000
Group		
In one year or less	**1,755**	24,982
Within two to five years	**–**	–
In more than five years	**–**	–
	1,755	24,982

Notes continued

forming part of the financial statements

29. Financial Instruments continued

	2011 $000	2010 $000
Company		
In one year or less	**346**	13,030
Within two to five years	**–**	–
In more than five years	**–**	–
	346	13,030

Borrowing Facilities

The Group did not have any borrowing facilities available to it at year end (2010: nil).

Fair Value of Financial Assets and Liabilities

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

30. Capital Commitments

Amounts contracted in relation to the 2012 investment programme in the Mekhediviska Golotvshinska and Svyrydivske gas and condensate fields in Ukraine, but not provided for in the financial statements at 31 December 2011 were $16,239,000 (2010: $283,000).

31. 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.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Services provided		**Purchase of goods**	
	2011 $000	2010 $000	**2011 $000**	2010 $000
Subsidiaries of Energees Investments Limited (see Note 5)	**44**	–	**2**	–
	44	–	**2**	–

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties	
	2011 $000	2010 $000
Subsidiaries of Energees Investments Limited (see Note 5)	**28**	–
	28	–

The amounts outstanding were unsecured and will be settled in cash.

32. Post Balance Sheet Events

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

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Glossary

km
kilometres

km^2
square kilometres

m^3/d
cubic metres per day

Mm^3
thousand cubic metres

bbl
barrel

boepd
barrels of oil equivalent per day

LPG
Liquefied Petroleum Gas

$
United States Dollar

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