Regal Petroleum
Realising Potential

Annual Report & Accounts 2007

Company overview

Regal Petroleum plc is an independent United Kingdom based group, focused on exploration, development and production of oil and gas assets in Ukraine, Romania and Egypt.

Company overview

02 Chairman's Statement
04 Chief Executive's Statement
06 Q&A with Chief Executive Officer David Greer
08 Board of Directors

Operational review

10 Chief Operating Officer's Review of Operations
12 Ukraine
16 Romania
17 Egypt

Finance review

18 Finance Review

Financial statements

22 Corporate Governance Statement
24 Directors' Report
26 Report of the Independent Auditor to the Members of Regal Petroleum plc
28 Consolidated Income Statement 2007
28 Consolidated Statement of Recognised Income and Expense
29 Consolidated Balance Sheet 2007
30 Company Balance Sheet 2007
31 Consolidated Cash Flow Statement 2007
32 Company Cash Flow Statement 2007
33 Notes

Chairman's Statement

Keith Henry
Non-Executive Chairman

I am delighted to report that the new and highly experienced team that have joined the Company since late 2007 have already made a dramatic improvement to the financial health, team capacity, reputation, image and resourcefulness of Regal Petroleum.

After the events of 2007 I am pleased to report that Regal Petroleum is now well placed – both in terms of management and funds – to develop its largely untapped resources in Ukraine and to build upon recent exploration successes in Egypt and Romania.

In 2007, Ukraine remained the focus of the Company's efforts, operations and production. The improvement in Ukraine's commercial and operating environment continued primarily as a result of the desire of international suppliers to bring the price of gas imported into Ukraine in line with Western Europe in the near term. It is likely, therefore, that the environment for Ukrainian domestic producers will continue improving.

2007 was a year of fundamental change for Regal following a long period in which the Company's Ukrainian assets were effectively under force majeure. This period ended when the issue was resolved in the Supreme Court of Ukraine in December 2006.

Regal began 2007, therefore, with the business foundations set and ready to progress. This enabled the Company to spud its first development well on the Ukrainian licence in October 2007 following a long period of drilling inactivity. At the same time, the Company began a process of determining an appropriate strategy to optimise shareholder value for these assets. Among other options, divestment of these assets was considered, in part or whole. These deliberations culminated in November 2007 with the decision to appoint Mr David Greer as Executive Chairman and Chief Executive Officer to lead the Company and to develop the Ukrainian assets. Since his appointment, Mr Greer has overhauled the board of management, redirecting the Company's focus to monetise fully and develop the Company's most valuable and highest potential assets. During the year, 100km^2 of 3D seismic and 160km of 2D seismic were recorded; a total of 6 wells were spudded; in addition, our Liberia and Greece assets were divested.

The financial statements presented herein do not yet reflect this real shift in direction. Modest revenues of $14.3 million and a loss for the year of $22.0 million represent a period of consolidation and corporate restructuring, during which time funds were limited and capital expenditure of $12.8 million was relatively low.

However, the Company did undertake a successful fund-raising exercise, raising $165 million (gross of costs) of additional capital, on 22nd February 2008, via a secondary placement of 56.4 million shares at 150 pence per share. This was executed at a premium to the prevailing share price. This placing was especially pleasing for the Company as it was undertaken not only within a short period of time, but also in depressed market conditions. The funds raised are and will be used primarily to fund the field development of the Ukrainian asset and to explore further, appraise and plan development of the Egyptian and Romanian assets where we had exciting discoveries in 2007.

Following his appointment, Mr Greer set out a plan to overhaul the strategy and direction of the Company. All short-term components of this Corporate Transformation Plan have been achieved.

Achievements in line with the objectives set include:

- The recruitment of 14 full time technical professionals;
- The procurement of a comprehensive 3D seismic data set in Ukraine over the SV field to complement the previously recorded 3D seismic over the MEX-GOL field;
- The procurement of a sophisticated high fidelity reservoir model;
- The procurement of modern, top drive drilling rigs and a work-over rig;
- The commencement of front end engineering studies to expand our Ukrainian facilities to accommodate the expected production growth;
- The appointment of a new team of highly respected external advisers;
- The appointment of a well respected Finance Director and Group Technical Director both of whom will assist enormously in the improved governance of the Company;
- The establishment of a co-operation agreement with NAK Nadra to promote technology transfer and in-country relations in Ukraine; and
- The successful placement of an additional $165 million of equity, at a premium, in challenging market circumstances.

All of this has enabled Regal to draw a line between its history and press ahead positively.

I have great confidence in the strength and credibility of the new Board and management team and in their ability to execute our new strategy. The Company has a significant high quality asset base which is largely untapped. I believe that further scope exists to increase resources in these fields beyond our 2P reserves of 169 MMboe, and anticipate this being reflected in future shareholder value.

Our assets in Ukraine place Regal in an ideal position to benefit from the likely short-term convergence of Ukrainian and European gas prices as gas systems become integrated with Western Europe.

Board Changes

Mr Neil Ritson resigned from his position of Chief Executive Officer in November 2007. At the same time, Mr Francesco Scolaro resigned from his position of Non-Executive Chairman and continued as Non-Executive Director until his resignation from the Company in March 2008.

Mr David Greer OBE was appointed as Executive Chairman and Chief Executive Officer in November 2007.

Mr Antonio Mozetic was appointed as Non-Executive Director in November 2007.

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

Mr Robert Wilde joined as Finance Director in May 2008.

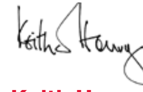
I was appointed to the role of Non-Executive Chairman in April 2008.

The Audit Committee and Remuneration Committee now comprise all three non-executive directors.

Outlook

I am delighted to report that the new and highly experienced team that have joined the Company since late 2007 have already made a dramatic improvement to the financial health, team capacity, reputation, image and resourcefulness of Regal Petroleum. I would like to thank all of our management and staff for their commitment and hard work, which has now so well positioned the Company for long-term growth.

I am very confident that as a result of these achievements and changes, the external recognition of the value of our assets in Ukraine and our exploration successes in Romania and Egypt, Regal Petroleum is now well placed for significant development and to deliver a much improved operational performance in 2008 and beyond.



Keith Henry
Non-Executive Chairman

Chief Executive's Statement

David Greer
Chief Executive Officer

I am pleased with the achievements of 2007, arguably the most significant year in the Company's history, and am confident that with the continued support of our staff and shareholders, we will build upon our achievements to date and realise our full potential.

Following negotiations with potential partners for our assets in Ukraine and the associated accreditation of value attributed to our assets by regional and international suitors, a new and exciting strategy was developed in late 2007 to realise the true potential and value of Regal Petroleum.

This strategy resulted in a fresh injection of experienced staff and capital, a focused approach to our rationalised portfolio which would build on our solid Ukrainian asset base and exciting oil and gas discoveries in Egypt and Romania. The Company also put together a major corporate transformation plan aimed at distancing the Company from its chequered past and an aggressive development plan to capitalise on our large untapped Ukrainian gas and condensate resources for the benefit of all stakeholders.

Introduction

After two years of difficult and challenging experiences in Ukraine and Greece, the Company entered 2007 with the objective of finding a partner to assist with the funding of the development of the Company's Ukrainian assets. To this end, the Company engaged Tristone Capital as advisors and a formal divestment process was initiated with a virtual data room being opened in May 2007. This attracted significant industry interest which led to a memorandum of understanding being signed with the Czech company, MND, to sell a 50% interest in the Company's Ukrainian assets for $330 million. This offer was subsequently improved upon by Shell in November 2007, who offered $410 million for a 51% stake in the assets.

However, shortly after Shell had signed its memorandum of understanding, a Board reorganisation took place at the instigation of various shareholders, both private and institutional. This reorganisation resulted in my appointment as Executive Chairman and CEO and the appointment of Harry Verkuil and Tony Mozetic, both former Shell veterans and colleagues, as fellow Directors. Shell announced on 23 November 2007 that, as they had not expected these management changes, they did not wish to proceed with the memorandum of understanding.

These Board changes and the subsequent ending of the Shell memorandum of understanding came about as a result of a growing belief within the Company and certain shareholders that a fresh injection of development experience both to the Company and Board would have the potential to monetise fully the Company's asset base. This belief, coupled with the relatively low value that Shell had, in my opinion, ascribed to the Ukrainian assets, led Regal to pursue a new strategy focused on transforming the Company and to develop its substantial Ukrainian resources.

To this end, a Corporate Transformation Plan was drawn up. The Plan comprised a number of key components of which the four cornerstones were:

- To complement the existing Regal management team and Board with an experienced management team of seasoned international E&P specialists in all key locations.
- To re-brand the Company's name and identity as a respectable growing mid tier E&P player ably assisted with a new cadre of professional advisers and consultants.

- To improve dramatically and accelerate Ukrainian reservoir delineation and production commencing in 2008 via the use of 3D seismic and leading edge well engineering, work-over, stimulation and production practices.
- To refinance the Company to be able to increase Ukrainian field potential to achieve target gas and condensate production levels of up to 50,000 boepd in total.

I am pleased to report that all short-term components of the transformation plan have been achieved as outlined in the Chairman's report.

Health Safety and Environment

Our commitment to high standards of health, safety and environmental matters is considered critical to our business. We report our safety performance in terms of significance of the potential of the incidents and accidents and use the guidelines produced by the Association of Oil and Gas Producers (OGP) as a base.

During the 2007 programme, two incidents were reported. Both of these incidents did not result in harm to people and were limited to minor asset damage only.

Ukraine

Negotiations that commenced at the end of 2007 and concluded in Spring 2008, resulted in a contract with Region, a Ukrainian contractor, for the provision of a work-over rig and two five year contracts with Saipem SpA for two brand-new, American built, top drive, drilling rigs which should be ready in the Ukraine in the fourth quarter of 2008.

All long lead items for the delivery of the 2008-2009 well intervention work programme (three work-overs) and a further six new wells have also been ordered and additional service contracts are being put in place. A further contract was awarded to the Dutch consultancy group, Horizon B.V., to develop a sophisticated high fidelity reservoir model to integrate historical production data and logs with newly acquired 3D seismic. By so doing, we aim to improve significantly our understanding of our subsurface assets in Ukraine and optimise drilling and production methods, completions and stimulation techniques to optimise production, through the targeting of world-class overall performance.

In addition, we are forming a strategic alliance with NAK Nadra to transfer technology to this Ukrainian enterprise and to train local staff in our subsurface practices.

Romania

Preparations are being made for the drilling of up to three additional wells with the ultimate hope of commercial production. This follows an encouraging discovery in the RBN-4 well, which tested at a rate of 3.74 MMcf/d (105,900m3/d) in December 2007, as well as good results from additional infill seismic, in early 2008, over the discovery area.

Egypt

Two exploration wells were drilled in 2007, one of which, well ERB-A-1X was a discovery and flowed under test at 1,901 bopd in September 2007. This well was tied back in June 2008 to test production capabilities of the reservoir, and flowed at an initial rate of 1,100 bopd. Whilst the other well was not a discovery, it has provided useful technical information.

Outlook for 2008

In the short-term, the Company will focus on the delivery of results in Ukraine from three planned work-overs, the completion of the MEX 103 production well and the completion of our new field reservoir model integrating the recently completed 3D seismic data.

We also look forward to reaping the benefits from the production tie-in of the discovery in Egypt. In Romania, we are looking forward to the completion of seismic processing and interpretation with a view to drilling up to three additional wells and commercialising the gas discovery made towards the end of 2007.

Medium-term plans will focus on increasing production in Ukraine and on building the additional infrastructure required to accommodate planned production growth. Additionally, efforts will continue to secure the additional funding required to support full field development and to produce an updated reserves report by mid 2009.

Conclusion

I am pleased with the achievements of 2007, arguably the most significant year in the Company's history, and am confident that with the continued support of our staff and shareholders, we will build upon our achievements to date and realise our full potential. This aspiration underpins the thought behind our new logo introduced for the first time on this year's annual report.

I have great confidence in the strength and experience of our new Board and management team, the significant scale and strategic importance of our assets in Ukraine, the robustness of our Ukrainian 2P reserves base of 169 MMboe and the quantum of the anticipated upside that is currently being determined.

While I am convinced that the Company's well-publicised historical problems are behind us, it is only results that will confound the remaining sceptics and resolve the legacy issues surrounding the historical governance of the Company. I am confident that we are on track to continue delivering on our promises and to placing the Company's chequered history firmly behind us.

Finally, I would like to thank all of our shareholders and staff for all of their support and commitment and look forward to realising our potential in an exciting future with the re-branded and revitalised Regal Petroleum.

David J Greer OBE
Chief Executive Officer

Q&A with Chief Executive Officer David Greer

David Greer, Chief Executive Officer, talks about past, current and future objectives for Regal Petroleum plc.

Q. Why did Regal not proceed with a sale of its interests in Ukraine in 2007?

A. The divestment exercise that was initiated in 2007 served to highlight the value and attractiveness of the Company's asset base in Ukraine and attracted major international and regional exploration and production suitors who made significant offers for a share of the Company's interests in Ukraine. These approaches did not, however, result in offers that would deliver either effective working partnerships or sufficient shareholder value. Therefore, the decision was made to retain 100% of the assets in Ukraine and to recruit a focused and professional development team with the skills and experience to develop the largely untapped but clearly highly valuable assets in Ukraine and with the skills and experience to both refinance and transform the Company's image, strength and value.

Q. Why did Shell pull out of the memorandum of understanding with Regal so soon after your appointment to the Board of Regal?

A. Shell entered into a memorandum of understanding on Tuesday 20 November 2007 to acquire a 51% stake in Regal's Ukrainian gas fields for $410 million comprising the first $360 million of development costs and a cash payment of $50 million. However, only three days later, Shell made public their reasoning, without any prior discussion or consultation with the Company, that 'The management change at Regal was not expected by Shell and we see from the new management's comments that they may have changed their thinking on the transaction.' Notwithstanding Shell's statement, there was no direct dialogue between Regal's management and Shell prior to Shell's announcement.

Q. Does this mean that you are not interested in partnering with anyone in the future?

A. Absolutely not. Regal Petroleum is very keen to consider any partnership with reputable regional or international companies that will enhance shareholder value. Whilst we are very confident of our abilities to develop our assets independently, we will certainly consider any form of partnership that allows us to operate as efficiently and cost effectively as we can at present, with minimum bureaucracy and process overload and maximum speed of execution and delivery.

Q. What have you achieved since you took over the helm at Regal Petroleum?

A. Since my appointment, a number of significant achievements have been made in a relatively short space of time and include:

1. The recruitment of 14 full time technical professionals.
2. The procurement of a comprehensive 3D seismic data set over the SV field to complement the previously recorded 3D seismic over the MEX-GOL field.
3. The procurement of a sophisticated high fidelity reservoir model.
4. The procurement of modern, top drive drilling rigs and work-over rigs.
5. The commencement of front end engineering studies to

expand our Ukrainian facilities to accommodate the expected production growth.
6. The appointment of a new team of highly respected external advisers.
7. The appointment of a highly respected Chairman, Finance Director and Group Technical Director all of whom will assist enormously in the improved governance of the Company.
8. The establishment of a cooperation agreement with NAK Nadra to promote technology transfer and in-country relations in Ukraine.
9. The successful placement of an additional $165 million of equity in challenging market circumstances.

Q. What is the Regal Petroleum Corporate Transformation Plan and how much of it have you accomplished?

A. The Corporate Transformation Plan was designed to mark the start of a new era in the Company's history by striving to demarcate itself from the many historical factors that have tainted the Company's image in the market. The Plan comprised the following key components.

1. To appoint new key consultants and advisers, including NOMAD/Broker and Public Relations Advisers, and thereby revitalise and enhance the quality of advice and professional support available to the Company as well as attract fresh analyst coverage of the revitalised Company.
2. To enhance the cadre and quality of professional staff in all key locations.
3. To develop and implement an aggressive field development plan by acquiring 3D seismic coverage of the SV field, procuring the services of specialist subsurface consultants and simulation models and by leveraging industry contacts to procure modern, top drive drilling and work-over rigs.
4. To rationalise the Company's asset base by concluding the disposal of Regal's interests in Greece and Liberia.
5. To design and implement a corporate rebranding exercise.
6. To refinance the Company via a secondary placement.
7. To enhance the corporate governance of the Company by reconstituting the composition of the Board of Directors and by appointing a new Chairman and new Finance Director with established track records in the City and in the oil and gas sector.
8. To develop and implement strategic partnerships with key Ukrainian agencies to assist in the training of local staff and technology transfer and thereby enhance local stakeholder relationships.

Q. What are your short, medium and long-term plans for the Company?

A. In the short term, we will be focussing on the delivery of results in Ukraine from three planned work-overs, the completion of the MEX 103 production well and the completion of our new field reservoir model integrating the recently completed 3D seismic data. We also look forward to the results of our recent production tie-in efforts in Egypt where we expect to see early oil production continue. In Romania, we also look forward to the completion of seismic processing and interpretation with a view to possibly drilling up to three additional wells and commercialising the gas discovery made towards the end of 2007.

Medium-term plans will focus on increasing production in Ukraine and on building the additional infrastructure required to accommodate planned production growth. Additionally, efforts will continue to secure the additional funding required to support full field development and to produce an updated reserves report by mid 2009.

Over the medium to longer-term, it is hoped that the Company will be in a position to secure additional assets and to qualify for a main market listing on the London Stock Exchange.

Q. Why have you decided to change the Company logo?

A. A key consideration in the design of our 2007 Corporate Transformation Plan was whether to change the name of the Company or not. After careful consideration and consultation, we decided to retain the name of the Company and to focus instead on re-branding the Company image, logo and brand.

As we operate in a commodity market, to obtain continued success in the future, we must clearly differentiate ourselves from our past and our competitors. We are privileged to have a large number of valuable assets, from our accredited oil and gas reserves to our great team of highly skilled and talented people. We believe we have the ability to leverage this combination of assets and staff resources to greater heights – in short, to realise our potential.

'Realising Potential' has therefore been chosen as our new 'logo theme' that will in time become synonymous with our revitalised Company. Consistent with this principle, our new logo is derived from the gap that exists between the initial letters 'R' and 'P' of Regal Petroleum. This gap, something others may overlook or simply don't notice, symbolises the historical unseen or ignored potential of Regal Petroleum. We will look to exploit the previously unrecognised value of our assets and realise our potential to deliver on these.

The bold colours in the logo have been selected to emphasise the perspective and dimensions of this gap and to symbolise the bold confidence the Board and management team have in the future of Regal Petroleum. By working together as a united team, we are confident that together we can realise our true potential for the benefit of all staff, shareholders and stakeholders.

Board of Directors

Keith Henry, FREng

Non-Executive Chairman

Keith Henry was appointed as Non Executive Chairman in April 2008. Mr Henry has over 34 years experience in the development, financing, design, construction and management of projects in the oil and gas, process, pipeline, and energy industries, during which time he was Chief Executive of National Power Plc, Kvaerner Engineering and Construction Limited and Brown & Root Limited.

In recent years, Mr Henry has held a number of senior non-executive roles, including Director then Chairman of Burren Energy plc for three years until the sale of the company to Eni SpA in January 2008. He is currently the senior independent director of Emerald Energy plc, a non-executive director of First Calgary Petroleums Limited, and a non-executive director of four privately owned companies.

He previously served as Deputy Chairman of Petroleum Geo-Services ASA from 2003 and then led the demerger as Chairman of Petrojarl ASA in 2006. He also served as a non-executive director of South East Water Ltd from 2005 to 2007 and of Enterprise Oil plc from 1995 to 2002.

Mr Henry is a Fellow of the Royal Academy of Engineering and a chartered civil engineer with a BSc degree from London University and a MSc from the University of Birmingham.

David J Greer, OBE

Chief Executive Officer

David Greer was appointed as Chairman and Chief Executive Officer in November 2007. Mr Greer subsequently relinquished the post of Chairman to Mr Henry in April 2008. Mr Greer has extensive oil industry experience, having worked for Shell International Exploration and Production for 28 years. He has held a wide variety of engineering, production, commercial and senior executive positions in Shell's operations in the United Kingdom, the Netherlands, Norway, Canada, Oman, Argentina, the Philippines and latterly as Deputy CEO and Project Director of the Sakhalin 2 project in Russia. Mr Greer graduated from the University of Edinburgh in Civil and Structural Engineering and is a Fellow of the Institution of Mechanical Engineers. Mr Greer was awarded his OBE in the 2002 New Years honours list.

Robert Wilde

Finance Director

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

Hendrikus (Harry) Verkuil

Chief Operating Officer

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

Antonio Mozetic

Non-Executive Director

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

Lord Anthony St John of Bletso

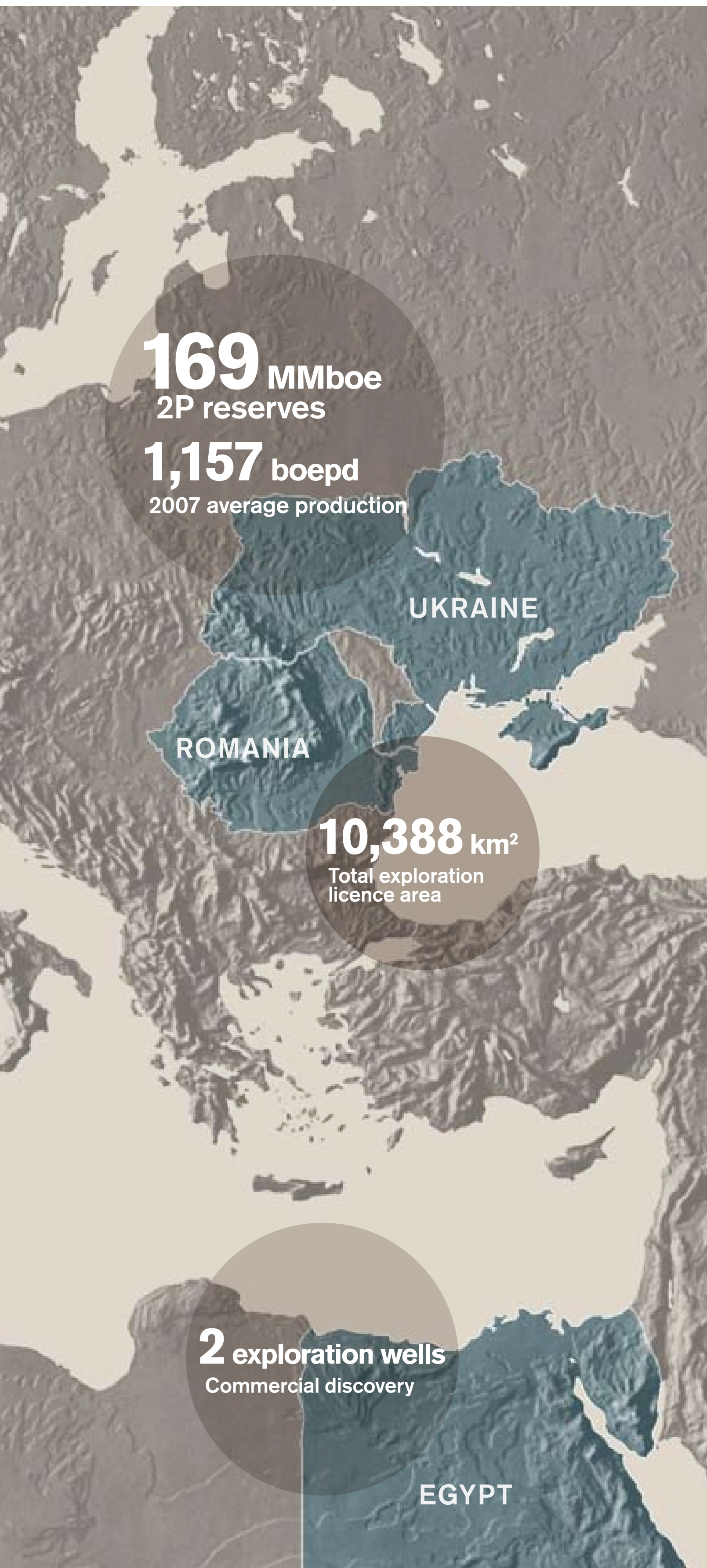
Non-Executive Director

Lord St John was appointed as Non-Executive Director in September 2003. A qualified solicitor, Lord St John is a Crossbench Member of the House of Lords and has served as a Member of the House of Lords European Union Sub-committee A on Trade, Finance and Foreign Affairs. He is currently retained as a consultant to Merrill Lynch, specialising in parliamentary liaison to and emerging markets. In addition, Lord St John serves as the Chairman of Estate and General and Chairman of the Governing Board of Certification International.

Chief Operating Officer's Review of Operations

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

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



Our Strategy

Following the resolution of various legal issues in Ukraine in December 2006 and the transformation of the management team, the Company has focused mainly on developing the Ukrainian assets. A detailed field development plan provides the platform for the business and, following the fundraising in February 2008, the Company now has the means to progress rapidly the development of this field. In addition to the contract signed with the Ukrainian contractor, Region, for the provision of a work-over rig, five year contracts were signed with Saipem SpA in May 2008 for the contracting of two, brand-new, dedicated top-drive rigs. These are expected to be in country by the fourth quarter of 2008, ready to commence drilling.

We anticipate that production could rise from current levels to peak production of up to 50,000 boepd. In addition to the 169 MMboe 2P reserves already identified, we intend to use these rigs to drill into deeper targets with the hope of unlocking significant, potential upside. We hope to add further to this upside with exploration and drilling programmes in Romania and Egypt.

Ukraine

2007 Highlights

- Increase in producing well stock
- Commenced drilling of well MEX-103
- 3D Seismic survey acquired
- Land acquisition approvals in progress
- Engagement of international drilling contractors

Asset Overview

Regal Petroleum Corporation Ltd holds a 100% working interest and is operator of the Mekhediviska-Golotvshinska (MEX-GOL) and Svyrydivske (SV) fields onshore Ukraine, which extend over a total combined area of 269km^2.

The MEX-GOL and SV fields are situated in north-eastern Ukraine, 200km east of Kiev. Geologically, the fields are located in the prolific Dnieper Donets sedimentary basin which contains approximately 90% of all Ukrainian gas and condensate production.

Production

In 2007, Regal operated five producing wells. The Company's average production over the 12 month period to 31 December 2007 was 4.88 MMcf/d (138,190 m3/d) of gas and 280 bpd (44.5 m3/d) of condensate which equates to a combined oil equivalent of 1,157 boepd.

Gas and Condensate Sales

The Company has a long-term agreement with OJSC Ukrzakordongeology to act as its exclusive offtaker of gas in Ukraine. The sales price achieved by the Company, through this agreement, is in line with the Government capped sales price. Gas prices in the Ukrainian domestic market continue to increase and are anticipated to converge with European border prices over the next two to five years. During the year Regal realised an average sales price of $142.29/Mm^3 ($4.03/Mcf).

Condensate is commercially tendered to a number of buyers and is typically sold in contracted units of 230 to 1,400 barrels. Condensate prices are seasonal with the highest prices achieved in the summer. Due to the market being served, the prices achieved

by Regal are at a slight premium to the prevailing market prices. During the last six months of 2007 Regal realised an average sales price of $74.31 per barrel.

2007 Highlights

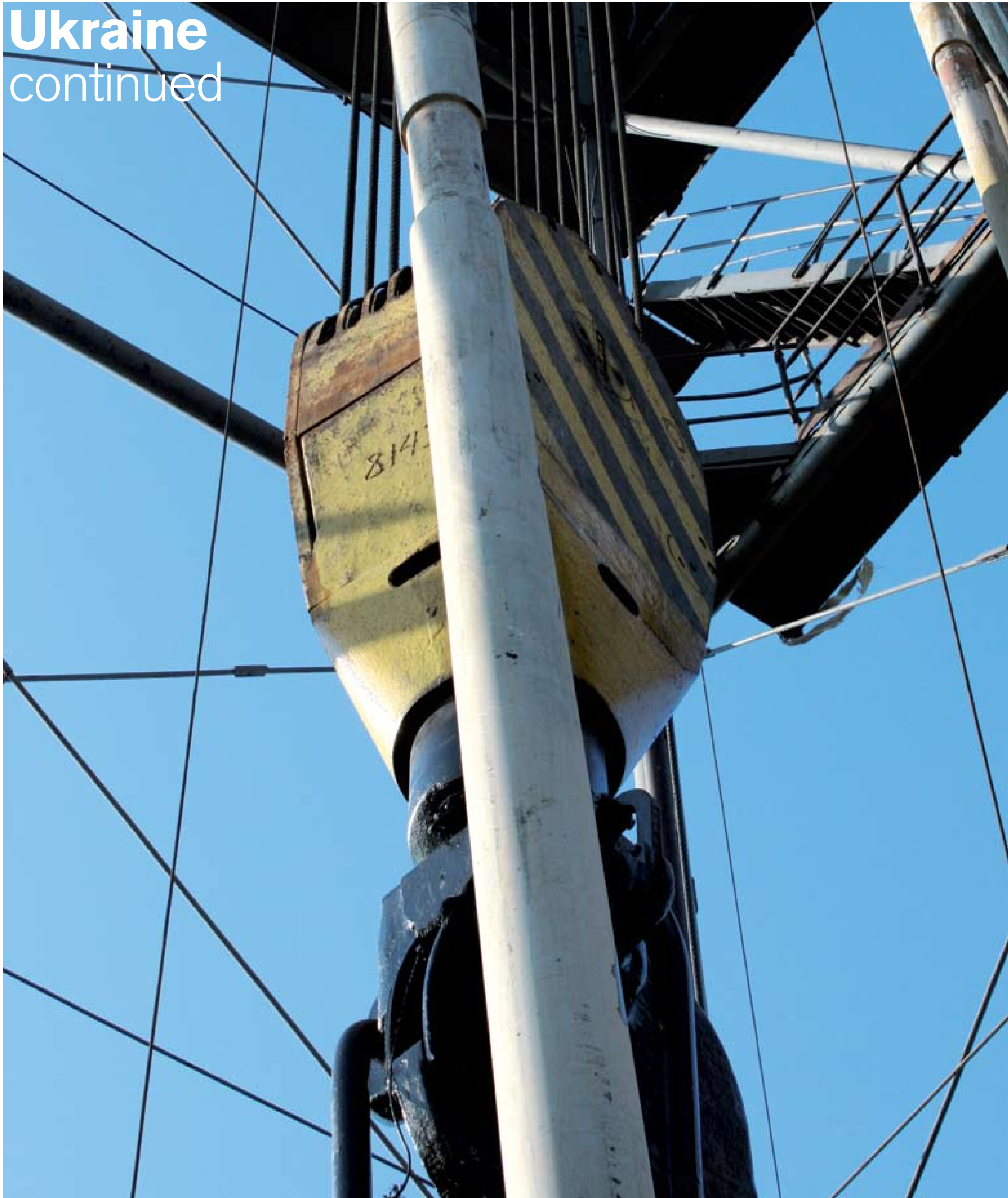
- *Increase in producing well stock*; in May 2007, the Company completed the 4.3km pipeline which connected the SV-10 well to the existing Regal-owned MEX-GOL production facility. The SV-10 well was originally drilled in 1998 and was subsequently worked-over by Regal in late 2006 using coiled tubing and nitrogen lift. The well was flow tested from mid November 2006 to February 2007 during which time average flow rates of approximately 1.62 MMcf/d (46,000 m^3/d) of gas and 50 bopd (8.5 m^3/d) of condensate were achieved. With SV-10 coming on stream in May 2007, this increased the Company's wells in production from 4 to 5, being MEX-3, MEX-102, GOL-1, GOL-2 and SV-10.
- *Well MEX-103*; this well was spudded on 4 October 2007 in the MEX-GOL field targeting the B-sands and is being drilled on a turn-key basis by Chernihivnaftagasgeologia (CNGG).
- *3D Seismic survey*; 100km^2 of 3D seismic survey was acquired over the MEX-GOL field between January and May 2007 followed by approval for an additional 100km^2 of seismic over the SV field. This commenced in December 2007 and completed in mid May 2008. This was acquired to increase reservoir understanding, to enable the creation of a comprehensive reservoir model, and to improve well placement, recovery and production.
- *New gas condensate production facility*; the Company has commissioned feasibility studies with local Ukrainian design institutes for the construction of a dedicated gas condensate production facility for the SV field, an additional low pressure pipeline and additional condensate tanks to accommodate increased production from the planned development of the SV field.
- *Land acquisition*; land acquisition approvals are in progress for six new wells.
- *Engagement of international drilling contractors*; late in 2007 a number of international drilling contractors were approached to provide Regal with modern, high-specification drilling and work-over rigs for the development of the MEX-GOL and SV fields. In May 2008, two five year contracts were concluded with Saipem SpA for the provision of two brand-new high specification drilling rigs. These are expected to be in-country and ready for operation before the end of 2008.

Asset History

The fields were originally discovered and partially appraised in the 1960's-80's by the State-run Naftogaz unit. Regal negotiated an exploration joint venture with the State-owned Chernihivnaftagasgeologia (CNGG) unit in 1999 for a 75% joint venture interest in, and operatorship of, the MEX-GOL and SV fields.

Between 2000 and 2004, the Regal/CNGG joint venture drilled two development/appraisal wells, MEX-102 (taken into production in April 2004) and SV 52 (plugged and abandoned in March 2004), and successfully completed three work-overs on Soviet-era wells. These results led the Ukrainian Government to declare the fields commercial in December 2003.

Ukraine continued



Regal was subsequently awarded 100% operated 20-year production licenses on the MEX-GOL and SV fields in July 2004. Currently there have been 22 wells drilled within the Regal licence area which extends over a total of 269km². The licences are valid until July 2024.

Asset Characteristics

The sediments which make up the reservoir rock for the MEX-GOL and SV fields are a sequence of sandstones of Lower Carboniferous age interbedded with shales and limestones. The accumulations are stratigraphically, rather than structurally, trapped as the reservoir sands pinch out up-dip to shale.

Eleven gas and condensate bearing reservoir horizons have been identified to date, eight 'shallower' zones in the Lower Carboniferous (Visean) and three 'deeper' zones in the Lower Carboniferous (Tournasian). The Visean reservoirs, which begin at a depth of approximately 4,700m, currently form the main gas and condensate bearing horizons and reach a gross thickness of 800m –1,000m within the field area.

To date, achieved flow rates in the Visean reservoirs have varied from 1.1 MMcf/d (31,000 m³/d) to 7.4 MMcf/d (209,000 m³/d). The Tournasian reservoirs, begin at a depth of approximately 5,800m. These zones have a gross thickness of about 200m but have only been penetrated by five wells due to the depth limitations of the Soviet-era rigs previously used in these fields. Further, these zones are dry gas prone (i.e. have a low condensate content) and to date have only seen modest flow rates with the best achieved rate of approximately 2.9 MMcf/d (82,000 m³/d).

Owing to the limitations of the previous wells, significant uncertainties exist as to the degree of sand distribution and gas water contact depth associated with the Tournasian reservoirs. These reservoirs present a key source of potential future upside, not currently included in the 2P reserves estimate of 169 MMboe (Ryder Scott, 2005). Further potential exists in the lower carboniferous zone, located at depths of around 6,000m to 6,500m. Exploration activity aimed at this horizon is not expected to commence until at least 2011.

Production Facilities

Prior to 2003, gas from the MEX-GOL and SV licences was processed through various existing Ukrnafta-owned facilities. These consisted of the basic separation plants near the towns of Micherdovka and Yachniki and the Kachanovski conditioning plant.

In 2003, Regal built new gas processing facilities, next to the existing Ukrnafta facilities at Yachniki. The initial plant capacity was 15.9 MMcf/d (450,000 m³/d) of gas and 370 bopd (60 m³/d) of condensate. In May 2005, the MEX-GOL plant was expanded to incorporate additional gas and condensate handling and is designed to process sweet gas and hydrocarbon liquids. The facility has a gas processing capacity of 24.7 MMcf/d (700,000 m³/d) of gas and 1,257 bopd (200 m³/d) of condensate. The gas is evacuated through the Majestral international export pipeline to Western Europe. The condensate is loaded at the production facility and transported by road.

Regal's MEX-GOL processing facility handles the production from the five Regal-owned production wells (GOL-1, GOL-2, MEX-3, MEX-102 and SV-10). In addition to processing the production from its own wells, gas and condensate from two wells owned by a third party, Pryrodni Resursy, was processed under a tariff arrangement. This arrangement was concluded in mid-2007. As a result the Company's facilities have spare capacity.

Reserves

Regal currently works on a principal MEX-GOL and SV resource case with a 2P reserves estimate of 169 MMboe. This case excludes any contribution from the Tournasian reservoirs, despite the fact that previous drilling activity has proven the existence of hydrocarbons at this level. There remains, therefore, significant potential upside from these Tournasian and the shallower Visean reservoirs.

Eleven gas and condensate bearing reservoir horizons have been identified to date, eight 'shallower' zones in the Lower Carboniferous (Visean) and three 'deeper' zones in the Lower Carboniferous (Tournasian).

→ Barlad licence

1,000km of 2D seismic evaluated

Drilling of 2 wells completed

RBN 4 tested at a maximum rate of 3.74 MMcf/d

→ Suceava licence

160km of 2D seismic acquired

Dornesti Sud-1 tested at a average rate of 0.88 MMcf/d

Asset Overview

Regal holds two licences in the north eastern part of Romania. The Suceava and Barlad blocks are located to the east of the producing oil and gas fields and infrastructure in the Carpathian Mountains on the Moldavian Platform. These blocks cover 4,103 km^2 and 6,285km^2 respectively, with potential hydrocarbons at shallow horizons in the range of 500m to 1,500m. Regal holds a 100% working interest and is operator of the Barlad block. The Suceava block, adjacent and directly north of the Balard block, is managed via a 50/50 joint venture with Aurelian Oil and Gas Plc ('Aurelian') as operator.

On the Barlad licence, the evaluation of 1,000km of 2D seismic and the drilling of two wells was completed in 2007. The first well, RBN-4, which completed on 29 October 2007, discovered gas which was tested at a maximum rate of 3.74 MMcf/d (105,900 m^3/d). The second well, RBN-3, was unsuccessful and was plugged and abandoned in December 2007.

In 2007 on the Suceava licence, 160km of 2D seismic was acquired and one well was drilled by Aurelian to fulfil its joint venture earn-in obligations. The Dornesti Sud-1 well discovered gas and was tested at an average rate of 0.88 MMcf/d (24,840 m^3/d) in December 2007. It is intended to review options that include a possible tie in to the Bilca Gas Plant, operated by Aurelian, on its adjacent Brodina Block EIII-1.

Romanian Outlook

The Company is cautiously optimistic that the Romanian assets will develop into an interesting opportunity. As the main objectives are relatively shallow, the drilling costs are expected to be considerably lower than in Ukraine. We are hopeful that as a result of the current discoveries, in addition to potentially three further wells and 80km of 2D infill seismic planned for 2008 on the Barlad block, there is an opportunity of early production from these assets.

Egypt

→ Highlights 2007

- 3D seismic survey acquired
- Drilling of 2 wells completed
- ERB-A-1X initial rates produced 1,901 bopd

East Ras Budran Concession (working interest 25%)

Apache Khalda Corporation LDC ('Apache'), the Company's joint venture partner in the East Ras Budran concession in Egypt, acquired a 3D seismic survey in early 2007. In addition in 2007, two exploration wells were drilled on the concession. The first of these, ERB-A-1X, was spudded in June 2007. This well reached its target depth (11,921 feet TVD) in the Darat Limestone and was flow tested for a 12 hour period and produced at an average rate of 1,901 bopd. Well site estimates of an average flow rate of 1,910 bopd and oil gravity of approximately 17 degree API have subsequently been confirmed by the operator as 1,901 bopd and 16-16.2 degree API respectively. This well was tied back and became operational in June 2008.

The second exploration well, ERB-B-1X, was drilled using the same rig, to explore potential reservoirs in a different part of the concession. The well was drilled to a total depth of 5,146 feet into basement, several zones in the well had oil shows and the well was subsequently tested without a productive flow of oil being achieved. The well was plugged and abandoned. A third exploration well, ERB-B-2X was spudded in February 2008 and on completion was tested but did not produce any hydrocarbons on test and was subsequently plugged and abandoned.

Egyptian Outlook

We look forward to reaping the benefits from the recent production tie-in of the ERB-A-1X discovery as well as executing a challenging further work and exploration programme with our partner Apache.

Finance Review

Robert Wilde
Finance Director

"

Regal is primarily a development business with a five year programme to monetise the Company's Ukrainian gas interests with the expectation of a significant hike in production volumes and, therefore, revenue within the first two years of this programme.

"

Results for the Year

2007 marks a real turning point in the evolution of Regal Petroleum; with new management; a significant capital raising shortly after the year end to develop our Ukrainian gas interests and encouraging signs from our exploration plays in Romania and Egypt. The financial statements presented herein do not as yet represent this real shift in direction given that most of 2007 was spent trying to partially divest the Ukrainian asset.

Regal is primarily a development business with a five year programme to monetise the Company's Ukrainian gas interests with the expectation of a significant increase in production volumes and, therefore, revenue, within the first two years of this programme. In addition, the Company is exploring for hydrocarbons in Romania and Egypt. In the latter, our first production well started to flow in June 2008, although this production is modest and the emphasis remains on exploration. The results for the year reflect this status and the Group recorded a loss of $22.0 million for the year ended 31 December 2007.

Turnover in the year of $14.3 million was derived entirely from Ukraine gas and condensate sales and represented a 32% increase over 2006. All gas and condensate production in Ukraine was sold locally at an average price of $142.29 Mm^3 ($4.03 Mcf) for gas and $63.78 per barrel for condensate. The cost of sales of $5.4 million includes royalty payments of $3.1 million.

The costs charged to the income statement also include charges of $3.1 million for non-cash and $4.4 million for cash settled employee share incentive arrangements as well as $2.3 million for the write-off of exploration costs under our successful efforts accounting policy. In addition, the Company has recognised a deferred tax liability of $1.2 million due to temporary differences arising from fixed assets in Ukraine.

Credit Facilities

On 13 September 2007, the Company entered into a revolving credit arrangement with Bank of Scotland. $9 million of the agreed facility of $15 million had been drawn by 31 December 2007. The loan was fully repaid following the capital raising in February 2008. The Company had no other credit commitments outstanding at the balance sheet date.

Cash and Capital Raising

Cash held on 31 December 2007 was $5.6 million. However in February 2008, a further $157.2 million (£80.6 million), net of costs, was raised through a placing of 56,440,000 shares at 150 pence per share, being at a small premium to the market price. Whilst many existing shareholders participated in the placing, a significant number of new investors became shareholders of Regal. This placing has enabled the Company to repay the revolving credit facility with Bank of Scotland and to press ahead with the first major steps for the development of its Ukrainian gas fields, most notably by the signing of contracts in May 2008 for the leasing of two newly built, top-drive rigs from Saipem SpA for five year terms.

Capital Expenditure

Capital expenditure in the year totalled $12.8 million. Included in this was $5.5 million incurred in the Ukraine with $2.6 million being the cost of acquisition of 3D seismic on the MEX-GOL field and $2.9 million on the field development and work-overs. In Romania $3.5 million was spent, largely on the drilling of two exploration wells; RBN-3 and RBN-4, in December and November 2007, respectively. RBN-4 is currently suspended, pending re-entry. In addition, $3.7 million of capital expenditure has been incurred on

our 25% interest in the East Ras Budran concession in Egypt, where two wells were drilled in 2007.

Disposals

On 21 December 2007 the Company announced that it had completed the sale of its entire shareholding in Eurotech Services SA, through which it held a 95% economic interest in the Greek company Kavala Oil SA, for a cash consideration of $1.5 million. On the same date, the Company also announced it had disposed of its interests in Blocks 8 and 9 offshore Liberia, held by its wholly owned subsidiary, Regal Liberia Limited, for a nominal consideration.

Operating Environment, Principal Risks and Uncertainties

Following the change in management and the raising of significant capital, primarily for the development of the Ukrainian gas assets, the Company intends to review the risks across all material aspects of the business during the course of the next year. Such risks, when identified, will be reported to the Audit Committee, together with a strategy for mitigation, where possible. Key risks already recognised are as follows:

Risks Relating to Ukraine, Romania and Egypt

Emerging markets such as Ukraine and Romania are subject to greater risks than more developed markets including, in some cases, significant legal, economic and political risks. Such economies may also be subject to rapid change and the Group needs to adapt and alter itself, as needed, relatively quickly. Although both of these economies endured difficult times during the 1990s – largely because of the transition to a market economy and the close, former ties to the Russian economy – many recent changes have been encouragingly positive. Both countries appear to be attempting to align their respective interests with NATO and gain closer ties to Western Europe.

The Ukrainian Government is keen to develop the country's domestic production of hydrocarbons since Ukraine imports the majority of its gas needs from Russia and Turkmenistan. Russian suppliers have stated their intention to bring gas prices for supplies to all foreign customers in line with western European countries. Whilst this should put Regal in a well-placed position, there is also the risk of the Ukrainian Government seeking to address this in its fiscal structure.

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

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

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

Currency Risk

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

Oil Price Risk

The Company currently derives its revenue from the sale of Ukrainian gas and condensate and, from June 2008, Egyptian oil. Whilst all of these revenues are relatively modest, because of Regal's ongoing development, these revenues are still subject to oil price volatility.

Ukrainian gas prices are largely dictated by Russian import prices because of the dependency on imported gas. Following the announcement by Gazprom of its intention to converge the lower Ukrainian prices with those of Western Europe (which are themselves intrinsically linked to oil price), it is considered likely that such prices will continue to rise in the medium term.

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

Exposure to Credit, Liquidity and Cash Flow Risk

The Group has not raised third party debt for the development of its business, nor does it have significant creditors or debtors. Internal financial projections are regularly made based on the latest estimates available and various scenarios to assess the robustness of the liquidity of the Group are run. Following the capital raising in February 2008, the Group currently holds sufficient cash for the medium term needs of the business. It should be noted that the funds required for capital expenditure to fully develop the Company's Ukrainian gas assets are expected to be derived not only from cash currently held on deposit, but also from future operational cash generated from gas and condensate production from the wells to be drilled. It is also anticipated that, in order to develop the field on the planned timeline, there is a likely need to source additional financing. There is a risk that insufficient operational cash is generated, or that additional funding cannot be secured, although this is currently not considered high and the regular cash forecasting should highlight any shortfall in sufficient time to take remedial action.

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 Field in Ukraine

The planned development of the Ukrainian gas field is susceptible to development and exploration risk. This could include, but is not

Finance Review
continued

restricted to, delays in delivery of the new rigs into Ukraine; lower than expected production from the wells as they come on-stream; or complex geology that is difficult to drill or interpret. The generation of significant operational cash envisaged in the coming years from this development is dependent on the successful delivery and completion of this development. Furthermore, the optimisation of all of the Company's assets is dependent on maintaining constructive relationships between all of our business stakeholders.

Capital Risk Management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets. As at 31 December 2007 the Group had borrowings of $9.0 million.

Key Performance Indicators

Despite having some operational activities from gas and condensate production in Ukraine, the resultant revenues and costs are relatively modest, when compared to anticipated future levels. Consequently, the current business is fundamentally in a development stage and, as such, the key performance indicators are focused on the successful delivery of investment to enable the Company to progress to this larger, operational business.

In order to achieve this objective, drilling rigs must be sourced, subsequently brought into Ukraine and wells drilled in line with a critical path that will enable gas and condensate production to increase, beginning in 2008. The Company has devised a strategy to monetise the Ukrainian gas assets by means of a detailed work plan and implementation programme. Consistent with the Corporate Transformation Plan, described in detail under the Chief Executive Officer's Review, the Board and management are incentivised to deliver shareholder value in line with this strategy. Options have been granted to key directors and staff which become exercisable only when, or if, key milestones are accomplished. Exact details of these performance conditions have already been made public to the market and are based around the following activities:

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

In this manner, the effort of the Company's personnel is aligned to the stakeholders interests.

Outlook

Having secured resources and the team to expedite the implementation plan, Regal's financial future is very promising. With the prospect of generating significantly increased operational cashflow in the foreseeable future, the real monetisation of our assets and delivery of their potential can commence in earnest.

Robert Wilde
Finance Director

Financial statements

Financial statements

22 Corporate Governance Statement
24 Directors' Report
26 Report of the Independent Auditor to the Members of Regal Petroleum plc
28 Consolidated Income Statement 2007
28 Consolidated Statement of Recognised Income and Expense
29 Consolidated Balance Sheet 2007
30 Company Balance Sheet 2007
31 Consolidated Cash Flow Statement 2007
32 Company Cash Flow Statement 2007
33 Notes

Corporate Governance Statement

Companies on the Alternative Investment Market of the London Stock Exchange are not required to comply with the Combined Code and due to its size the Company is not in full compliance.

The Board

The Board of the Company consists of three executive directors and three non-executive directors. The composition of the Board ensures that no one individual or group dominates the decision making process.

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

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

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

The non-executive directors are interested in ordinary shares and hold options in respect to ordinary shares. The Company does not consider that these interests, which serve to align their interests with shareholders generally, adversely affect their independence as non-executive directors.

Remuneration Committee

The Remuneration Committee, comprising solely of independent non-executive directors, is responsible for establishing and developing the Company's general policy on executive and senior management remuneration and determining specific remuneration packages for executive directors.

The Remuneration Committee presently comprises: Keith Henry, Lord St John of Bletso and Antonio Mozetic.

Audit Committee

The Audit Committee, comprising solely of independent non-executive directors meets not less than twice a year and considers the Company's financial reporting (including accounting policies) and internal financial controls.

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

The Audit Committee presently comprises: Keith Henry, Lord St John of Bletso and Antonio Mozetic.

Nomination Committee

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

Internal Controls

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 2007 through regular Board meetings.

Communication with Shareholders

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

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

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

Going Concern

The Board is required to assess whether the Group has adequate resources to continue operations for the foreseeable future. The directors are satisfied that the Company and the Group will continue in operational existence for the foreseeable future (being a period of at least 12 months from the date of this report), for this reason the directors have adopted the going concern basis for preparing the financial statements.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

Principal Activities

The principal activities of the Group are oil and gas exploration, development and production. The Group has its head office in London and has oil and gas interests in Ukraine, Romania and Egypt. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 15 to the accounts.

Proposed Dividend

The directors do not recommend the payment of a dividend.

Policy and Practice on Payment of Creditors

The Company's policy on payment of creditors for the year following that covered by this report is to settle all amounts with its creditors on a timely basis taking account of the credit period given by each supplier.

The Company's average number of days purchases included within trade creditors at the year end was 30 (2006: 19).

Post Balance Sheet Events

The Company has completed a capital raising and announced the results of a well in Egypt that has been completed after the balance sheet date. These are described in Note 29 to the financial statements.

Directors and Directors' Interests

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

	Date appointed	Date resigned
D J Greer	22 November 2007	–
A Mozetic	22 November 2007	–
F Scolaro	–	–
Lord St John of Bletso	–	–
N Ritson	–	22 November 2007
R S C Phillips	–	16 January 2007

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of directors' interests:

	Class of share	Interest at end of year	Interest at start of year or date of appointment
D J Greer	Ordinary	–	–
A Mozetic	Ordinary	–	–
F Scolaro	Ordinary	1,448,067	1,994,080
Lord St John of Bletso	Ordinary	6,500	6,500

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.

Substantial Shareholders

As of 19 June 2008 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
C. A. Fiduciary Services Limited	28,527,387	14.07
Capital Research and Management Company	23,685,800	11.68
BlackRock Inc	20,014,292	9.87
Deutsche Bank AG	14,083,332	6.95
Henderson Global Investors	10,075,569	4.97
Lehman Brothers International (Europe)	9,812,025	4.84
MF Global UK Limited	6,552,420	3.23

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The directors are required to prepare Group financial statements for each financial year which give a true and fair view of the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements, the directors are required to:

- Select suitable accounting policies in accordance with IAS8; Accounting policies, charges in accounting estimates and errors and then apply them consistently;
- 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 is 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
- State that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 1985. 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.

Statement of Disclosure to Auditor

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are not informed. The directors have taken all steps required to make themselves aware of any relevant audit information and to establish that the Company's auditors are informed of that information.

Political and Charitable Contributions

During the year the Group made charitable donations of $1,463 (2006: $1,380).

Auditors

A resolution proposing UHY Hacker Young LLP be reappointed as auditors of the Company will be put to the Annual General Meeting.

By order of the Board

Robert Wilde
Director
23 June 2008

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

We have audited the Group and Parent Company financial statements (the 'financial statements') of Regal Petroleum plc for the year ended 31 December 2007, which comprise the Group and Parent Company Income Statements, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group Statement of Recognised Income and Expense and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 auditors

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

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

We report to you our opinion as to whether the Financial Statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the Financial Statements.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises the Company overview, the Operational review, the Finance review, the Corporate Governance Statement and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the Financial Statements give a true and fair view, in accordance with IFRSs, as adopted by the European Union, of the state of the Group's and the Parent Company's affairs as at 31 December 2007 and of the Group's loss for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

UHY Hacker Young LLP
Registered Auditors
Chartered Accountants
23 June 2008

Consolidated Income Statement
for the year ended 31 December 2007

	Note	2007 $000	2006 as restated* $000
Revenue	2	**14,264**	10,811
Cost of sales	3	**(5,372)**	(8,285)
Gross profit		**8,892**	2,526
Other administrative expenses	3	**(21,051)**	(20,467)
Exploration costs written off		**(2,266)**	–
Ukraine settlement costs	4	**–**	(54,801)
Share based charge		**(7,489)**	(387)
Total administrative expenses		**(30,806)**	(75,655)
Other operating income		**830**	858
Operating loss		**(21,084)**	(72,271)
Sale of investment	5	**1,475**	–
Impairment of financial asset	6	**–**	(43,700)
Finance revenue		**424**	1,182
Finance costs	9	**(427)**	(2)
Loss on ordinary activities before taxation		**(19,612)**	(114,791)
Income tax expense	10	**(2,423)**	(489)
Loss on ordinary activities after taxation		**(22,035)**	(115,280)
Loss per ordinary share (cents)			
Basic and diluted	12	**(16.2c)**	(89.8c)

* Restated for the effect of adopting IFRS (see Note 30).

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

Consolidated Statement of Recognised Income and Expense
for the year ended 31 December 2007

	2007 $000	2006 as restated* $000
Equity – foreign currency translation	**(269)**	(4,331)
Net expense recognised directly in equity	**(269)**	(4,331)
Loss for the year	**(22,035)**	(115,280)
Total recognised income and expense for the year	**(22,304)**	(119,611)

* Restated for the effect of adopting IFRS (see Note 30).

Consolidated Balance Sheet

at 31 December 2007

	Note	2007 $000	2006 as restated* $000
Assets			
Non-current assets			
Intangible assets	13	**25,992**	20,672
Property, plant and equipment	14	**33,561**	29,620
		59,553	50,292
Current assets			
Inventories	16	**297**	37
Trade and other receivables	17	**2,159**	3,368
Cash and cash equivalents		**5,565**	13,048
		8,021	16,453
Total assets		**67,574**	66,745
Liabilities			
Current liabilities			
Trade and other payables	18	**(10,737)**	(2,171)
Borrowings	19	**(8,625)**	–
		(19,362)	(2,171)
Net current (liabilities)/assets		**(11,341)**	14,282
Non-current liabilities			
Trade and other payables	20	**(41)**	–
Provisions	21	**(1,283)**	(950)
Deferred tax	22	**(1,233)**	–
		(2,557)	(950)
Total liabilities		**(21,919)**	(3,121)
Net assets		**45,655**	63,624
Equity			
Called up share capital	23	**12,378**	10,934
Share premium account	24	**265,899**	217,640
Other reserves	24	**12,681**	10,598
Equity reserves	24	**–**	49,049
Profit and loss account	24	**(245,303)**	(224,597)
Total equity		**45,655**	63,624

* Restated for the effect of adopting IFRS (see Note 30).

These financial statements were approved by the Board of Directors and authorised for issue on 23 June 2008. They were signed on its behalf by:

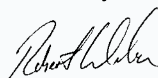
Robert Wilde
Director

Company Balance Sheet
at 31 December 2007

	Note	2007 $000	2006 as restated* $000
Assets			
Non-current assets			
Intangible assets	13	**86**	130
Property, plant and equipment	14	**355**	471
Investments	15	**48,923**	46,939
		49,364	47,540
Current assets			
Trade and other receivables	17	**1,145**	1,087
Cash and cash equivalents		**2,239**	11,215
		3,384	12,302
Total assets		**52,748**	59,842
Liabilities			
Current liabilities			
Trade and other payables	18	**(2,354)**	(962)
Borrowings	19	**(8,625)**	–
		(10,979)	(962)
Net current (liabilities)/assets		**(7,595)**	11,340
Non-current liabilities			
Provisions	21	**(1,005)**	(745)
Total liabilities		**(11,984)**	(1,707)
Net assets		**40,764**	58,135
Equity			
Called up share capital	23	**12,378**	10,934
Share premium account	24	**265,899**	217,640
Share option reserve	24	**3,845**	2,031
Equity reserve	24	**–**	49,049
Profit and loss account	24	**(241,358)**	(221,519)
Shareholders' funds		**40,764**	58,135

* Restated for the effect of adopting IFRS (see Note 30).

These financial statements were approved by the Board of Directors and authorised for issue on 23 June 2008. They were signed on its behalf by:



Robert Wilde
Director

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Note	2007 $000	2006 as restated* $000
Operating activities			
Cash generated from operations	26	**(7,389)**	(18,024)
Interest received		**366**	1,183
Interest paid		**(59)**	(2)
Taxation paid		**(962)**	(491)
Net cash from operating activities		**(8,044)**	(17,334)
Investing activities			
Proceeds from sale of investment		**1,475**	–
Proceeds from sale of intangible fixed assets		**40**	4,245
Proceeds from sale of property, plant and equipment		**2**	–
Purchase of intangible assets		**(4,535)**	(7,966)
Purchase of property, plant and equipment		**(5,709)**	(1,926)
Net cash from investing activities		**(8,727)**	(5,647)
Financing activities			
Proceeds from borrowings		**9,000**	–
Funds received in connection with share options		**655**	80
Payment for debt issue costs		**(671)**	–
Net cash from financing activities		**8,984**	80
Net decrease in cash and cash equivalents		**(7,787)**	(22,901)
Cash and cash equivalents at beginning of year		**13,048**	34,916
Effect of foreign exchange rate changes		**304**	1,149
Other non-cash movements		**–**	(116)
Cash and cash equivalents at end of year		**5,565**	13,048

* Restated for the effect of adopting IFRS (see Note 30).

Company Cash Flow Statement

for the year ended 31 December 2007

	Note	2007 $000	2006 $000
Operating activities			
Cash generated from operations	26	**(17,596)**	(20,637)
Interest received		**320**	1,165
Interest paid		**(58)**	–
Net cash from operating activities		**(17,334)**	(19,472)
Investing activities			
Proceeds from sale of investment		**1,481**	–
Purchase of property, plant and equipment		**(35)**	(19)
Investment in Group companies		**(2,271)**	(962)
Net cash from investing activities		**(825)**	(981)
Financing activities			
Proceeds from borrowings		**9,000**	–
Funds received in connection with share options		**655**	79
Payment for debt issue costs		**(671)**	–
Net cash from financing activities		**8,984**	79
Net decrease in cash and cash equivalents		**(9,175)**	(20,374)
Cash and cash equivalents at beginning of year		**11,215**	31,160
Effect of foreign exchange rate changes		**199**	429
Cash and cash equivalents at end of year		**2,239**	11,215

Notes
forming part of the financial statements

1. Accounting Policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of Preparation
This is the first year in which the Group has prepared its financial statements under International Financial Reporting Standards (IFRS) and the comparatives have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRS. The Group issued a press release in September 2007 incorporating its preliminary IFRS financial statements for 2006 which are unchanged in these financial statements, and the reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in Note 30.

The financial statements are prepared under the historical cost basis except for valuation of certain share-based payments and other financial assets.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's financial statements from 2008 or later periods, but the Group has not early adopted them.

- IFRS 8 'Operating Segments' – mandatory for 2009
- IAS 23 (Amendment) 'Borrowing Costs' – effective for 2009. The amendment to the standard is still subject to endorsement by the European Union
- IAS 1 (Amendment) 'Presentation of Financial Statements' – mandatory for 2009
- IFRS 3 (Amendment) 'Business Combinations' – mandatory for 2009
- IFRS 2 (Amendment) 'Share based payment – Vesting conditions and cancellations' – mandatory for 2009

Basis of Consolidation
The consolidated financial information incorporates the financial information of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Subsidiaries
The acquisition of subsidiaries is accounted for using the purchase method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill, any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Subsidiaries that are not controlled by the Company are accounted for as available-for-sale financial assets (see financial instruments accounting policies).

Joint Ventures
The Group's companies participate in joint ventures which involve joint control of assets used in the Group's oil and gas exploration, development and producing activities. The Group accounts for its share of the assets and liabilities of joint ventures, classified in the appropriate balance sheet heading within each company and at Group level upon consolidation.

Corporate Restructuring
During 2002 the Group carried out a corporate restructuring including the introduction of a new holding company. As this represented a combination of entities under common control, and because this was before 1 January 2006, this business combination was outside the scope of IFRS 3 'Business Combinations' and was therefore accounted for using principles of merger accounting as specified under UK GAAP.

Notes continued
forming part of the financial statements

1. Accounting Policies continued

Commercial Reserves
Proven and probable oil and gas reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs. The proven and probable reserves included herein conform to the definition approved by the Society of Petroleum Engineers (SPE) and World Petroleum Congress (WPC).

Oil and Gas Exploration Assets and Development/Producing Assets
The Group applies the successful efforts method of accounting for oil and gas assets, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'.

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

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

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

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

Depletion and Amortisation
All expenditure carried within each field is amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, generally on a field by field basis. In certain circumstances, fields within a single development area may be combined for depletion purposes. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs necessary to bring the reserves into production. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Impairment
At each balance sheet date, the Group reviews the carrying amount of exploration assets and development/producing assets to determine whether there is any indication that those assets have suffered an impairment loss. This includes exploration and appraisal costs capitalised which are assessed for impairment in accordance with IFRS 6. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

1. Accounting Policies continued

Decommissioning

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. The cost of the relevant tangible fixed asset 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.

Intangible Assets Other Than Oil and Gas Assets and Depreciation

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 and Depreciation

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	20–25%	per annum straight line
Plant and machinery	8–25%	per annum straight line

Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Revenue Recognition

Turnover represents amounts invoiced in respect of sales of oil and gas exclusive of indirect taxes and excise duties and is recognised on delivery of product. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign Currencies

The Group's consolidated accounts are presented in US dollars. The functional and presentational currencies of some subsidiary companies may be in currencies other than US dollars.

The functional currency of individual companies is normally determined by the primary economic environment in which the entity operates (the functional currency), normally the one in which it primarily generates and expends cash. Transactions in currencies other than US dollars ('foreign currencies') are recorded in US dollars 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 into US dollars 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. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities 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 translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

In accordance with the transitional provisions of IFRS 1 cumulative foreign exchange translation differences at 1 January 2006 for all subsidiaries which do not use US dollars as a functional currency have been set to zero.

Notes continued
forming part of the financial statements

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 profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included on the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax, including UK corporation and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Dividends Payable
Accounting for dividends payable is in accordance with IAS 10 'Events after the Balance Sheet Date'. Accordingly, dividends proposed or declared on equity instruments after the balance sheet date are not recognised as a liability at the balance sheet date.

Financial Instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group does not currently utilise derivative financial instruments.

1. Accounting Policies continued

Trade Receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

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

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

Trade Payables

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

Bank Borrowings and Loan Notes

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

Equity Instruments

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

Finance Costs and Debt

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

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

All other borrowing costs are expensed as incurred.

Cash and Cash Equivalents

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

Included in cash and cash equivalents are amounts relating to financial guarantees entered into by the Group to collateralise future commitments as per standard industry practice.

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'. In accordance with the transitional provisions of that standard, this standard has not been applied to those awards that were granted on or before 7 November 2002. In addition, the standard has not been applied to awards that were granted after 7 November 2002 that vested before 1 January 2005. However, in contrast to the transitional provision of IFRS 2, the standard has been applied for those awards that were granted after 7 November 2002, and that vested between 1 January 2005 and 1 January 2006 in order to be consistent with the transitional rules adopted under UK GAAP in the 2006 annual report in respect of FRS 20 'Share-based Payments'.

Share based awards of the Group have been treated as either equity or cash settled as defined by IFRS 2. The fair value of these awards has been determined at the date of grant of the award allowing for the effect of any market-based performance conditions. The fair value, adjusted by the Group's estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period.

The fair values were calculated using a binomial option pricing model with suitable modifications to allow for employee turnover after vesting and early exercise. Where necessary this model was supplemented with a Monte Carlo model. The inputs to the model include: the share price at date of grant; exercise price; expected volatility; expected dividends; risk free rate of interest; and patterns of exercise of the plan participants.

Share Options
In accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', the Company provides in full for the employer's national insurance liability estimated to arise on the future exercise of share options granted.

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

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

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

Depreciation of Oil and Gas Assets
Oil and gas assets held in property, plant and equipment are mainly depreciated on a unit of production basis at a rate calculated by reference to proven and probable reserves and incorporating the estimated future cost of developing and extracting those reserves. Future development costs are estimated using assumptions as to the number of wells required to produce those reserves, the cost of the wells, future production facilities and operating costs, together with assumptions on oil and gas realisations.

2. Segmental Information

The Group's primary operations are located in Ukraine, Romania, Egypt and formerly Greece, with its head office in the United Kingdom. These regions are the basis on which the Group reports its primary segment information.

	Ukraine		United Kingdom		Romania		Egypt		Greece		Total	
	2007 $000	2006 $000	**2007 $000**	2006 $000	**2007 $000**	2006 $000	**2007 $000**	2006 $000	**2007 $000**	2006 $000	**2007 $000**	2006 $000
Turnover												
Gas sales	**7,430**	4,823	**–**	–	**–**	–	**–**	–	**–**	–	**7,430**	4,823
Condensate sales	**6,834**	5,988	**–**	–	**–**	–	**–**	–	**–**	–	**6,834**	5,988
Total sales (and sales to third parties)	**14,264**	10,811	**–**	–	**–**	–	**–**	–	**–**	–	**14,264**	10,811
Operating profit/(loss)	**4,578**	1,223	**(22,377)**	(73,080)	**(1,892)**	(437)	**(1,234)**	151	**(159)**	(128)	**(21,084)**	(72,271)
Segment assets	**35,133**	31,574	**4,569**	12,787	**23,743**	21,461	**4,121**	874	**8**	49	**67,574**	66,745
Segment liabilities	**(3,308)**	(862)	**(15,649)**	(1,971)	**(1,908)**	(6)	**(1,046)**	(268)	**(8)**	(14)	**(21,919)**	(3,121)

There are no inter-segment sales within the Group and all products are sold in the geographical region they are produced in.
The Group's gas sales of $7,430,000 (2006: $4,823,000) are with one single external party with which the Group has an agreement.

Notes continued
forming part of the financial statements

3. Loss on Ordinary Activities Before Taxation

	2007 $000	2006 $000
Loss on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration (see below)	**423**	266
Professional fees in relation to divestment of Ukrainian asset	**1,210**	–
Depreciation and other amounts written off fixed assets	**1,162**	1,038
Impairment of fixed assets	–	1,935
Foreign exchange differences	**252**	(565)
Audit services:		
Fees payable to the Company's auditors for the audit of the Parent Company and Consolidated accounts	**163**	137
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries pursuant to legislation	**17**	60
	180	197
Other services:		
Other services pursuant to legislation – interim review	**30**	23
Other services relating to taxation	**205**	46
Other	**8**	–
	243	69
Total audit and other services	**423**	266

4. Ukrainian Settlement Costs

As approved by shareholders at the Extraordinary General Meeting held by the Group on 6 September 2006, Alberry Limited ('Alberry') a company registered in the British Virgin Islands, subscribed for 15% of the increased ordinary shares in Regal Petroleum Corporation Limited (RPC), a subsidiary of the Group, for a cash consideration of £100,000 and committed to provide assistance in relation to securing the licences of the Group's Ukrainian assets. Should Alberry be successful in securing the licences, the Group committed to repurchase the shares for a consideration of $50,901,300, payable in cash or by the new issue of ordinary shares in Regal Petroleum plc at the Group's discretion, to a limit of 29.9% of the increased ordinary share capital of Regal Petroleum plc.

On 12 December 2006 the Supreme Court of Ukraine affirmed the validity of the Ukrainian production licences thus fulfilling the terms of the agreement. As such a provision was made for the liability due in return for the services performed.

On 18 June 2007 the Company announced that it had completed the acquisition from Alberry of 1,800 shares, being 15% of the ordinary shares of RPC. In consideration for the acquisition of the shares, 13,910,623 ordinary shares of Regal Petroleum plc were allotted and issued to Alberry. The acquisition was accounted for against the provision made in the previous year.

	2007 $000	2006 $000
Net consultancy charge	**–**	54,801

5. Sale of Investment

	2007 $000	2006 $000
Proceeds from sale of investment	**1,500**	–
Costs associated with sale	**(25)**	–
	1,475	–

5. Sale of Investment continued

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

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

6. Impairment of Financial Asset

In accordance with IAS 36 'Impairment of Assets', the directors considered the value of Kavala Oil S.A. to be impaired as at 31 December 2006, resulting in the carrying value of the asset being adjusted to reflect the directors' revised valuation to nil.

	2007 $000	2006 $000
Impairment of investment in Kavala Oil S.A.	**–**	43,700

7. Remuneration of Directors

	2007 $000	2006 $000
Directors' emoluments	**9,185**	1,480

The emoluments of the individual directors were as follows:

	Basic salary and fees 2007 $000	Bonus 2007 $000	Benefits in kind 2007 $000	Aggregate emoluments 2007 $000	Pension contributions 2007 $000	**Total emoluments 2007 $000**	Total emoluments 2006 $000
D J Greer	38	–	–	38	–	**38**	–
A Mozetic	–	–	–	–	–	**–**	–
F Scolaro	150	6,237	–	6,387	–	**6,387**	44
Lord St John of Bletso	50	–	–	50	–	**50**	51
N Ritson	1,537	861	5	2,403	152	**2,555**	94
R S C Phillips	136	–	2	138	17	**155**	379
P Morgan	–	–	–	–	–	**–**	508
P Heap	–	–	–	–	–	**–**	50
R W Gaisford	–	–	–	–	–	**–**	316
R F P Hardman	–	–	–	–	–	**–**	38
	1,911	7,098	7	9,016	169	**9,185**	1,480

Bonuses awarded to directors during the year were in recognition of the successful resolution of Ukraine legal issues, continued retention of Ukraine licences and their contribution to the Company. Included in the total bonus figures are amounts totalling $4.4 million which relate to cash settled share-based payment transactions. At 31 December 2007, $3.2 million has been accrued for in relation to a bonus payable to F Scolaro. This amount was settled and the funds used to subscribe for new shares in the Company in February 2008.

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

Included in the above, the following amounts were paid as compensation in respect of loss of office:

N Ritson	$1,216,100
R S C Phillips	$ 30,027

No directors exercised share options during the year (2006: nil).

Notes continued
forming part of the financial statements

8. Staff Numbers and Costs
The average number of employees on a full time equivalent basis during the year was as follows:

	Number of employees	
	2007	2006
Full time	**119**	106

The aggregate payroll costs of these persons were as follows:

	2007 $000	2006 $000
Wages and salaries	**7,901**	3,342
Social security costs	**1,050**	396
Other pension costs	**572**	340
Share option charge	**7,489**	387
Provision for national insurance on share options	**244**	745
Provision for annual leave	**78**	–
	17,334	5,210

9. Finance Costs

	2007 $000	2006 $000
On bank loans	**131**	2
On obligations under finance leases	**11**	–
Finance and arrangement fees	**285**	–
	427	2

10. Taxation
Analysis of Charge in Period

	2007 $000	2006 $000
Current tax		
Foreign tax on income for the period	**1,190**	489
Deferred tax		
UK – current year	**596**	–
– prior year	**637**	–
Tax on profit on ordinary activities	**2,423**	489

10. Taxation continued

Factors Affecting the Tax Charge for the Current Period

The current tax charge for the period is higher than the standard rate of corporation tax in the UK 30% (2006: 30%). The differences are explained below.

	2007 $000	2006 $000
Current tax reconciliation		
Loss on ordinary activities before tax	**(19,612)**	(114,791)
Current tax credit at 30% (2006: 30%)	**(5,884)**	(34,437)
Effects of:		
Disallowed expenses and non-taxable income	**1,475**	28,305
Gain on disposal of investment	**(400)**	–
Foreign tax calculation differences	**–**	(73)
Capital allowances for period in excess of depreciation	**19**	–
Depreciation for period in excess of capital allowances	**–**	549
Other timing differences	**436**	(526)
Tax losses not used	**6,140**	6,671
Prior year adjustment	**637**	–
Total tax charge (see above)	**2,423**	489

Factors Affecting Future Tax Charge

The directors do not consider it appropriate to provide for any deferred tax asset to reflect the potential benefit arising from timing differences at 31 December 2007. At 31 December 2007, and in gross terms, there were unrecognised deferred tax assets in respect of estimated tax losses carried forward of up to $99 million (2006: $80.0 million: originally stated at $30 million). The Group has also not recognised a deferred tax asset for the same reason in respect of the excess of book depreciation allowances over tax depreciation allowances of approximately $2.3 million (2006: $2.5 million) and other differences amounting to $0.2 million (2006: $0.6 million). Deferred tax assets relate primarily to the UK.

11. Loss for the Financial Year

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Group loss for the period includes a parent company loss after tax of $21,168,000 for the year ended 31 December 2007 (2006: $97,341,000).

12. Loss per Share

Basic loss per share of 16.2 cents (2006: 89.8 cents) is based upon losses of $22,035,000 (2006: $115,280,000) and 136,373,710 (2006: 128,447,423) ordinary shares being the weighted average number of shares. As the exercise of options would be anti-dilutive they have been excluded from the computation of diluted loss per share.

On 27 February 2008 the Company completed a placing of 56,440,000 new ordinary shares (refer Note 29).

Notes continued
forming part of the financial statements

13. Intangible Fixed Assets

Group	2007 Exploration assets Romania $000	2007 Exploration assets Egypt $000	2007 Computer software $000	2007 Total $000	2006 Exploration assets Romania $000	2006 Exploration assets Egypt $000	2006 Computer software $000	2006 Total $000
Cost								
At beginning of year	**19,695**	**835**	**264**	**20,794**	11,506	2,752	324	14,582
Additions	**3,448**	**3,671**	**5**	**7,124**	5,630	2,285	29	7,944
Disposals	**(39)**	**–**	**(6)**	**(45)**	–	(4,202)	(93)	(4,295)
Transfer to inventory (Note 16)	**(211)**	**–**	**–**	**(211)**	–	–	–	–
Exploration costs written off	**(1,414)**	**(852)**	**–**	**(2,266)**	–	–	–	–
Effect of movement in foreign exchange	**766**	**–**	**–**	**766**	2,559	–	4	2,563
At end of year	**22,245**	**3,654**	**263**	**26,162**	19,695	835	264	20,794
Depreciation								
At beginning of year	**–**	**–**	**122**	**122**	–	–	120	120
Charge for year	**–**	**–**	**55**	**55**	–	–	72	72
On disposals	**–**	**–**	**(7)**	**(7)**	–	–	(72)	(72)
Effect of movement in foreign exchange	**–**	**–**	**–**	**–**	–	–	2	2
At end of year	**–**	**–**	**170**	**170**	–	–	122	122
Net book value								
At 31 December	**22,245**	**3,654**	**93**	**25,992**	19,695	835	142	20,672

Company	2007 $000	2006 $000
Cost		
At beginning of year	**222**	213
Additions	**–**	9
At end of year	**222**	222
Depreciation		
At beginning of year	**92**	46
Charge for year	**44**	46
At end of year	**136**	92
Net book value		
At 31 December	**86**	130

14. Property, Plant and Equipment

Group	2007 Exploration and development costs Ukraine $000	2007 Other fixed assets $000	2007 Total $000	2006 Exploration and development costs Ukraine $000	2006 Other fixed assets $000	2006 Total $000
Cost						
At beginning of year	**32,078**	**1,278**	**33,356**	29,022	3,072	32,094
Additions	**5,518**	**191**	**5,709**	1,830	117	1,947
Disposals	**–**	**(18)**	**(18)**	–	(63)	(63)
Effect of movement in foreign exchange	**(724)**	**(3)**	**(727)**	1,226	25	1,251
Impairment of fixed assets	**–**	**(7)**	**(7)**	–	(1,873)	(1,873)
At end of year	**36,872**	**1,441**	**38,313**	32,078	1,278	33,356
Depreciation						
At beginning of year	**3,051**	**685**	**3,736**	2,411	549	2,960
Charge for year	**890**	**217**	**1,107**	558	394	952
On disposals	**–**	**(18)**	**(18)**	–	(12)	(12)
Effect of movement in foreign exchange	**(70)**	**(3)**	**(73)**	82	13	95
Impairment of fixed assets	**–**	**–**	**–**	–	(259)	(259)
At end of year	**3,871**	**881**	**4,752**	3,051	685	3,736
Net book value						
At 31 December	**33,001**	**560**	**33,561**	29,027	593	29,620

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

Company	2007 $000	2006 $000
Cost		
At beginning of year	**837**	2,706
Additions	**33**	10
Disposals	–	(6)
Impairment of fixed assets	–	(1,873)
At end of year	**870**	837
Depreciation		
At beginning of year	**366**	322
Charge for year	**149**	304
On disposals	**–**	(1)
Impairment of fixed assets	**–**	(259)
At end of year	**515**	366
Net book value		
At 31 December	**355**	471

Notes continued
forming part of the financial statements

15. Fixed Asset Investments

Company	Shares in Group undertakings $000	Loans to Group undertakings $000	Total $000
Cost			
At 1 January 2006	28,016	43,656	71,672
Additions	–	715	715
Provision	–	(14,787)	(14,787)
Impairment	(10,661)	–	(10,661)
At 31 December 2006	17,355	29,584	46,939
Cost			
At 1 January 2007	**17,355**	**29,584**	**46,939**
Additions	**–**	**2,060**	**2,060**
Disposals	**(76)**	**–**	**(76)**
At 31 December 2007	**17,279**	**31,644**	**48,923**

The undertakings in which the Group's interest at the year end is more than 20% are as follows:

Subsidiary undertakings	Country of incorporation	Principal activity	Class and percentage of shares held
Regal Petroleum (Jersey) Limited	Jersey	Holding company	100%
Regal Petroleum Corporation Limited	Jersey	Oil & Natural Gas Extraction	100%
Regal Petroleum Ukraine Limited	Ukraine	Oil & Natural Gas Extraction	100%
Regal Romania SRL	Romania	Oil & Natural Gas Extraction	100%
Regal Hellas S.A.	Greece	Dormant	100%
Regal Egypt Limited	United Kingdom	Oil & Natural Gas Extraction	100%
Regal Group Services Limited	United Kingdom	Service Company	100%

The parent company holds direct interests in the above except for the indirect interest of 100% of the share capital of Regal Petroleum Corporation Limited and Regal Petroleum Ukraine Limited which are controlled through its 100% ownership of Regal Petroleum (Jersey) Limited.

16. Inventories

	Group 2007 $000	Group 2006 $000
Materials (transferred from intangible assets see Note 13)	**211**	–
Finished goods and goods for resale	**86**	37
	297	37

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

17. Trade and Other Receivables

	Group		Company	
	2007 $000	2006 $000	**2007 $000**	2006 $000
Trade receivables	**406**	1,139	**–**	43
Amounts owed by Group undertakings	**–**	–	**332**	332
Prepayments and accrued income	**794**	321	**428**	318
Other receivables	**959**	1,908	**385**	394
	2,159	3,368	**1,145**	1,087

18. Trade and Other Payables

	Group		Company	
	2007 $000	2006 $000	**2007 $000**	2006 $000
Trade payables	**5,709**	1,014	**618**	135
Taxation and social security	**638**	583	**–**	160
Accruals and deferred income	**4,390**	574	**1,736**	667
	10,737	2,171	**2,354**	962

19. Borrowings

	Group		Company	
	2007 $000	2006 $000	**2007 $000**	2006 $000
Secured revolving credit facility drawn	**9,000**	–	**9,000**	–
Unamortised borrowing costs	**(375)**	–	**(375)**	–
	8,625	–	**8,625**	–

On 13 September 2007 the Group entered into an agreement with Bank of Scotland for a US dollar revolving credit facility of up to $15 million for a term of one year. Amounts drawn bear interest at LIBOR plus an applicable margin and the facility is secured via a charge over the Group's shares. This facility was cancelled in April 2008.

20. Obligations Under Finance Leases

	Group	
	2007 $000	2006 $000
Amounts payable under finance leases:		
Within one year	**39**	–
In the second to fifth years inclusive	**72**	–
	111	–
Less future finance, service and insurance charges	**(57)**	–
Present value of lease obligations	**54**	–
Amount due for settlement within 12 months (shown under current liabilities)	**13**	–
Amount due for settlement after 12 months	**41**	–

The finance leases relate to motor vehicles in Ukraine. The average lease term is three years. For the year ended 31 December 2007, the average effective borrowing rate was 14.24%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in Ukrainian Hryvnia and translated to US dollars. The Group's obligations under finance leases are secured by the lessor's charge over the lease assets. The Directors consider that the fair value of the Group's lease obligations approximates their carrying amount.

Notes continued
forming part of the financial statements

21. Provisions for Liabilities and Charges

Group	Provision for annual leave $000	Provision for national insurance on share options $000	Provision for decommiss-ioning $000	Total $000
At beginning of year	–	745	205	950
Amounts provided	78	244	–	322
Effect of movement in foreign exchange	–	16	(5)	11
At end of year	**78**	**1,005**	**200**	**1,283**

At 31 December 2007 a provision for $199,980 (2006: $204,673) has been recognised for decommissioning costs. These costs relate to the estimated liability for the removal of Ukraine production facilities and site restoration at the end of the production life. These costs are expected to be incurred between 2009 and 2024.

Company	Provision for national insurance on share options $000
At beginning of year	745
Amounts provided	244
Effect of movement in foreign exchange	16
At end of year	**1,005**

22. Deferred Tax

	Group	
	2007 $000	2006 $000
At beginning of year	**–**	–
Charged to income statement – current year	**596**	–
– prior year	**637**	–
At end of year	**1,233**	–

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

23. Called up Share Capital

	2007		2006	
	Number	**$000**	Number	$000
Authorised				
Ordinary shares of 5p each (approximately 9 cents each)	**300,000,000**	**17,905**	300,000,000	17,905
Allotted, called up and fully paid				
Opening balance at 1 January	**128,508,201**	**10,934**	128,508,201	10,934
Issued during the year:				
– Exercise of share options	**610,000**	**60**	–	–
– Share issue	**13,910,623**	**1,384**	–	–
Closing balance at 31 December	**143,028,824**	**12,378**	128,508,201	10,934

23. Called up Share Capital continued

The directors held the following options to subscribe for shares in the Company:

	Class of share	At end of year	At beginning of year or date of appointment
Lord St John of Bletso	Ordinary	750,000	750,000

The above options are held under share option schemes and are exercisable by 2015 at prices ranging between 83.5 pence and 87.5 pence.

Share Option Scheme

The only share option plan operated during the year was the 2004 share option plan. Options granted under the 2004 share option plan normally only become exercisable following the first anniversary of the date of grant if the performance condition has been met. In addition to the share option plan, the Company holds agreements with three parties granting the right to subscribe for shares in the Company and bonus arrangements with two directors structured as equal to a percentage of the increase in market capitalisation.

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

	2007 Number	**2007 WAEP £**	2006 Number	2006 WAEP £
Outstanding at beginning of year	**3,225,000**	**0.892**	6,390,000	1.497
Granted during the year	**5,516,714**	**1.512**	4,330,000	0.832
Exercised during the year	**(610,000)**	**0.546**	(69,325)	0.600
Expired during the year	**(3,956,714)**	**1.603**	(7,425,675)	1.380
Outstanding at end of year	**4,175,000**	**1.000**	3,225,000	0.892
Exercisable at end of year	**4,110,000**	**0.992**	3,085,000	1.044

The weighted average share price at exercise for options exercised in 2007 was 54.6p (2006: 60p).

Options outstanding at 31 December 2007 had exercise prices of 41.6p to 360p and remaining contractual life of one to 10 years.

The principal inputs to the options valuation model were:

Risk free interest rate	4.5–5.5%p.a.
Expected volatility	60–150% p.a.
Dividend yield	0% p.a.
Employee turnover	From 0–10% p.a. depending on seniority
Early exercise	At rates dependent upon seniority and potential gain from exercise

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

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

	Weighted average fair value £	Weighted average expected life from grant date years
2005	0.304	1.96
2006	0.357	1.29
2007	0.456	1.09

The Company recognised a total charge of $7,489,000 (2006: $387,000) in respect of equity and cash settled share based awards.

Notes continued
forming part of the financial statements

24. Share Premium and Reserves

Group	Share capital $000	Share premium account $000	Equity share option reserve $000	Shares to be issued $000	Merger reserve $000	Capital contri-butions $000	Foreign exchange reserve $000	Profit and loss account $000	Total $000
At 1 January 2006	10,934	217,640	1,791	–	(3,204)	7,477	9	(109,544)	125,103
Retained loss for the year	–	–	–	–	–	–	–	(115,280)	(115,280)
Current year IFRS 2 charge	–	–	387	49,049	–	–	–	–	49,436
Cost of shares vesting	–	–	–	–	–	–	–	80	80
Exchange differences	–	–	–	–	–	–	4,285	–	4,285
Transfer for options exercised or expired	–	–	(147)	–	–	–	–	147	–
At 31 December 2006	10,934	217,640	2,031	49,049	(3,204)	7,477	4,294	(224,597)	63,624

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

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 credited back since the adoption of IFRS 2.

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.

24. Share Premium and Reserves continued

Company	Share capital $000	Share premium account $000	Equity share option reserve $000	Shares to be issued $000	Profit and loss account $000	Total $000
At 1 January 2006	10,934	217,640	1,791	–	(124,405)	105,960
Retained loss for the year	–	–	–	–	(97,341)	(97,341)
Current year IFRS 2 charge	–	–	387	49,049	–	49,436
Cost of shares vesting	–	–	–	–	80	80
Transfer for options exercised or expired	–	–	(147)	–	147	–
At 31 December 2006	10,934	217,640	2,031	49,049	(221,519)	58,135

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

25. Commitments

	Group		Company	
	2007 $000	2006 $000	**2007 $000**	2006 $000
Minimum lease payments under operating leases recognised as an expense for the year	**341**	319	**341**	319

Operating lease payments represent rentals on office property. The lease on the office property is negotiated for an average of five years and rentals are fixed for an average of five years.

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

Group and Company	**2007 Land and buildings $000**	2006 Land and buildings $000
Amounts payable due:		
Within one year	**442**	442
In the second to fifth years inclusive	**147**	589
	589	1,031

As at 31 December 2007 the Group had committed to undertake a 3D seismic survey over the SV field in Ukraine. The survey is anticipated to cost $3.2 million to acquire.

Notes continued
forming part of the financial statements

26. Reconciliation of Operating Loss to Operating Cash Flow

Group	2007 $000	2006 $000
Operating loss	**(21,084)**	(72,271)
Depreciation, amortisation and impairment charges	**1,162**	2,977
Exchange differences	**189**	(343)
IFRS adjustments included in restated operating loss	**–**	(79)
Movement in provisions	**333**	754
(Increase)/decrease in inventories	**(260)**	1
Decrease in trade and other receivables	**1,189**	1,580
Increase/(decrease) in trade and other payables	**5,673**	(195)
Current asset investment	**–**	116
Share option charge	**3,143**	387
Exploration costs written off	**2,266**	–
Exceptional share based payment charge	**–**	49,049
Net cash outflow from operating activities	**(7,389)**	(18,024)

Company	2007 $000	2006 $000
Operating loss	**(22,392)**	(73,097)
Depreciation, amortisation and impairment charges	**332**	2,285
Exchange differences	**(179)**	(412)
Movement in provisions	**260**	745
(Increase)/decrease in traded and other receivables	**(79)**	310
Increase in trade and other payables	**1,319**	96
Share option charge	**3,143**	387
Exceptional share based payment charge	**–**	49,049
Net cash outflow from operating activities	**(17,596)**	(20,637)

27. Financial Instruments

The Group's financial instruments comprise loans, short-term investments, cash and various items such as debtors and creditors that arise directly from its operations. The Group has bank accounts denominated in British pounds, Egyptian pounds, US dollars, Euros, Ukraine hryvnia and Romanian lei. As at 31 December 2007 the Group does not have any long-term borrowings (2006: $nil), however the Group had drawn $9.0 million on a one year, $15 million revolving credit facility. The main future risks arising from the Group's financial instruments are currently currency risk and liquidity risk.

Short-Term Debtors and Creditors

Short-term debtors and creditors have been excluded from all the following disclosures other than the currency risk disclosures. The fair value of short-term debtors and creditors approximates to the carrying value because of their short maturity. Deferred tax has been excluded from the following disclosures.

Currency Risk

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

Currency	**2007 $000**	2006 $000
British pounds	**587**	761
Egyptian pounds	**–**	22
Euros	**1,853**	838
Ukraine hryvnia	**482**	1,856
Romanian lei	**(1,042)**	1,487
	1,880	4,964

Liquidity Risk

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

Interest Rate Risk Profile of Financial Liabilities

The interest rate profile of the financial liabilities of the Group as at 31 December 2007 was:

	2007			2006		
Currency	**Total financial liabilities $000**	**Floating rate financial liabilities $000**	**Fixed rate financial liabilities $000**	Total financial liabilities $000	Floating rate financial liabilities $000	Fixed rate financial liabilities $000
USD	**9,000**	**9,000**	**–**	–	–	–
Total	**9,000**	**9,000**	**–**	–	–	–

All the Group's creditors falling due within one year (other than bank borrowings) are excluded from the above tables either due to the exclusion of short-term items or because they do not meet the definition of financial liabilities. There are no material financial liabilities on which interest is not paid.

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

Notes continued
forming part of the financial statements

27. Financial Instruments continued
Interest Rate Risk Profile of Financial Assets
The Group had the following financial assets as at 31 December 2007:

Currency	2007 Total $000	2007 Floating rate financial assets $000	2007 Fixed rate financial assets $000	2006 Total $000	2006 Floating rate financial assets $000	2006 Fixed rate financial assets $000
British pounds	**741**	**741**	**–**	924	924	–
US dollar	**1,722**	**1,722**	**–**	9,939	9,939	–
Egyptian pounds	**–**	**–**	**–**	26	26	–
Euros	**1,899**	**1,899**	**–**	808	808	–
Ukraine hryvnia	**1,127**	**1,127**	**–**	1,343	1,343	–
Romanian lei	**76**	**76**	**–**	8	8	–
Total	**5,565**	**5,565**	**–**	13,048	13,048	–

The cash deposits comprise deposits placed in money market funds.

Maturity of Financial Liabilities
The maturity profile of the Group's financial liabilities, other than short-term creditors and accruals, was as follows:

	2007 $000	2006 $000
In one year or less	**9,000**	–
In more than five years	**–**	–
Total	**9,000**	–

Borrowing Facilities
The Group has certain borrowing facilities available to it. The undrawn facilities available at 31 December 2007 in respect of which all conditions precedent have been met at that date amount to $6.0 million (2006: $nil).

Facility	2007 Total $000	2007 Drawn $000	2007 Undrawn $000	2006 Total $000	2006 Drawn $000	2006 Undrawn $000
Overdraft facility	**15,000**	**9,000**	**6,000**	–	–	–

Fair Value Of Financial Assets and Liabilities
The fair value of all financial instruments is not materially different from the book value.

28. Related Party Disclosures
Goods and services to the value of $104,243 (2006: $63,968) were paid for by the Group on behalf of Sierra Leone Diamond Company Limited. Sierra Leone Diamond Company Limited is a diamond exploration company in which Mr F Scolaro (non-executive director) was a non-executive director for part of the year. No amount was owed to the Group at the end of the year (2006: $22,600).

29. Subsequent Events
In February 2008, the Company successfully completed a placing of 56,440,000 new ordinary shares of 5 pence each at a price of 150 pence per share, raising (after deduction of expenses) $157.2 million.

On 3 April 2008 the Group announced the well results for ERB-B-2X in Egypt. Testing showed no hydrocarbons, as such the well was plugged and abandoned.

30. Transition to IFRS

For all periods up to and including the year ended 31 December 2006, the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 December 2007, are the first the Group is required to prepare in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the International Accounting Standards Board. Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2007 and the significant accounting policies adopted are shown above. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 January 2006, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS. This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 January 2006 and its previously published UK GAAP financial statements for the year ended 31 December 2006. The preliminary restatement of the Group's 2006 results under IFRS were published on the Regal Petroleum plc website (www.regalpetroleum.co.uk) on 19 September 2007.

Exemptions Applied

IFRS 1 'First-time Adoption of International Financial Reporting Standards' establishes the transitional requirements for the preparation of financial statements upon first time adoption of IFRS. IFRS 1 generally requires an entity to comply with IFRS effective at the reporting date and to apply these retrospectively to the opening balance sheet, the comparative period and the reporting period. The standard allows certain optional exemptions from full retrospective application and other elections on transition.

Elections made pursuant to IFRS 1 'First Time Adoption' are as follows:

- IFRS 3 'Business Combinations' has not been applied retrospectively to business combinations before 1 January 2006. Thus both the classification of the business combination and the measurement of fair values determined at the time of the business combination have been maintained.
- Cumulative foreign exchange translation differences for all subsidiaries which do not use US dollars as a functional currency have been set to zero.
- IFRS 2 'Share-based Payment Transactions' has not been applied to awards granted before 7 November 2002.

The adjustments to the 2006 UK GAAP financial statements can be explained as follows:

IFRS 6 – Exploration for and Evaluation of Mineral Resources

Under UK GAAP all costs incurred prior to having obtained the licence rights were included within intangible assets. Under IFRS such expenditure has to be written off in full in the year in which it occurs. This has resulted in an adjustment of $473,000 to retained earnings for the opening balance sheet, an additional adjustment of $2,000 to 30 June 2006 and an adjustment of $6.15 million to other administrative expenses for the year ended 31 December 2006. The total adjustment for the year ended 31 December 2006 is $6.658 million, however $322,000 (included in the opening balance sheet adjustment and subsequent expenditure during 2006) was impaired during 2006 which now reverses resulting in a net adjustment of $6.336 million.

On the cash flow statement for the year ended 31 December 2006, the pre-licence costs were shown within 'Capital expenditure and financial investment'. Since such costs are being expensed under IFRS, they have been classified within operating cash flows.

IAS 21 – Effect of Changes in Foreign Exchange Rates

Under UK GAAP the profit and loss account of a foreign entity could be translated at the closing rate for consolidation purposes. IAS 21 requires revenues and expenses to be translated at actual rates or appropriate averages. Cumulative exchange differences are then recognised as a separate component within equity.

At transition date, the Group has taken advantage of the exemptions offered under IFRS 1 and deemed cumulative translation differences to be zero.

For the year ended 2006, this change has resulted in a restatement of the income statement with the corresponding adjustment recognised within equity.

Notes continued
forming part of the financial statements

IAS 38 – Intangible Assets
In accordance with IAS 38, the Group has reclassified computer software from property, plant and equipment to intangible assets as the software component is not an integral part of the related hardware of a computer.

This adjustment is also reflected within the cash flow statement as a reclassification from fixed assets to intangible assets.

IAS 16 – Property, Plant and Equipment
Under UK GAAP, tangible fixed assets comprised oil and gas properties for which the existence or otherwise of commercial reserves had been established and other fixed assets including non oil and gas specific fixtures and fittings, office equipment and motor vehicles.

Under IFRS, all amounts previously classified as 'Tangible Assets' have been recorded as 'Property, Plant and Equipment'.

Consolidated Balance Sheet as at 1 January 2006

	UK GAAP $'000	IFRS 6 $'000	IAS 38 $'000	IAS 16 $'000	IFRS $'000
Non-current assets					
Intangible assets	14,731	(473)	221	–	14,479
Property, plant and equipment	–	–	–	29,135	29,135
Tangible assets	29,356	–	(221)	(29,135)	–
Financial asset	43,700	–	–	–	43,700
	87,787	(473)	–	–	87,314
Current assets					
Inventories	38	–	–	–	38
Trade and other receivables	4,995	–	–	–	4,995
Investments	136	–	–	–	136
Cash and cash equivalents	34,796	–	–	–	34,796
	39,965	–	–	–	39,965
Current liabilities					
Trade and other payables	(2,267)	–	–	–	(2,267)
Net current assets	**37,698**	**–**	**–**	**–**	**37,698**
Non-current liabilities					
Provisions	(196)	–	–	–	(196)
Net assets	**125,289**	**(473)**	**–**	**–**	**124,816**
Equity					
Called up share capital	10,934	–	–	–	10,934
Share premium account	217,640	–	–	–	217,640
Other reserves	6,073	–	–	–	6,073
Profit and loss account	(109,358)	(473)	–	–	(109,831)
Total equity	**125,289**	**(473)**	**–**	**–**	**124,816**

Notes continued

forming part of the financial statements

Consolidated Income Statement for the year ended 31 December 2006

	UK GAAP $'000	IFRS 6 $'000	IAS 21 $'000	IFRS $'000
Revenue	10,845	–	(34)	10,811
Cost of sales	(8,306)	–	21	(8,285)
Gross profit	**2,539**	**–**	**(13)**	**2,526**
Ukraine settlement costs	(54,801)	–	–	(54,801)
Share based charge	(387)	–	–	(387)
Other administrative expenses	(14,378)	(6,150)	61	(20,467)
Total administrative expenses	(69,566)	(6,150)	61	(75,655)
Other operating income	861	–	(3)	858
Operating loss	**(66,166)**	**(6,150)**	**45**	**(72,271)**
Impairment of financial asset	(43,700)	–	–	(43,700)
Finance revenue	1,183	–	(1)	1,182
Finance costs	(2)	–	–	(2)
Loss on ordinary activities before taxation	**(108,685)**	**(6,150)**	**44**	**(114,791)**
Tax on loss on ordinary activities	(491)	–	2	(489)
Loss for the financial period	**(109,176)**	**(6,150)**	**46**	**(115,280)**
Loss per ordinary share (cents)				
Basic and diluted	(85.0)	(4.8)	–	(89.8)

Consolidated Balance Sheet as at 31 December 2006

	UK GAAP $'000	IFRS 6 $'000	IAS 21 $'000	IAS 38 $'000	IAS 16 $'000	IFRS $'000
Non-current assets						
Intangible assets	26,867	(6,336)	–	141	–	20,672
Property, plant and equipment	–	–	–	–	29,620	29,620
Tangible assets	29,761	–	–	(141)	(29,620)	–
	56,628	(6,336)	–	–	–	50,292
Current assets						
Inventories	37	–	–	–	–	37
Trade and other receivables	3,368	–	–	–	–	3,368
Cash and cash equivalents	13,048	–	–	–	–	13,048
	16,453	–	–	–	–	16,453
Current liabilities						
Trade and other payables	(2,171)	–	–	–	–	(2,171)
Net current assets	**14,282**	**–**	**–**	**–**	**–**	**14,282**
Non-current liabilities						
Provisions	(950)	–	–	–	–	(950)
Net assets	**69,960**	**(6,336)**	**–**	**–**	**–**	**63,624**
Equity						
Called up share capital	10,934	–	–	–	–	10,934
Share premium account	217,640	–	–	–	–	217,640
Other reserves	10,644	–	(46)	–	–	10,598
Equity reserves	49,049	–	–	–	–	49,049
Profit and loss account	(218,307)	(6,336)	46	–	–	(224,597)
Total equity	**69,960**	**(6,336)**	**–**	**–**	**–**	**63,624**

Notes continued

forming part of the financial statements

Consolidated Cash Flow Statement for the year to 31 December 2006

	UK GAAP $'000	IFRS 6 $'000	IAS 38 $'000	IAS 16 $'000	IFRS $'000
Operating activities					
Cash generated from operations	(11,840)	(6,184)	–	–	(18,024)
Interest received	1,183	–	–	–	1,183
Interest paid	(2)	–	–	–	(2)
Taxation paid	(491)	–	–	–	(491)
Net cash from operating activities	**(11,150)**	**(6,184)**	**–**	**–**	**(17,334)**
Investing activities					
Proceeds from sale of intangible fixed assets	4,245	–	–	–	4,245
Purchase of intangible assets	(14,100)	6,184	(50)	–	(7,966)
Purchase of property, plant and equipment	–	–	–	(1,926)	(1,926)
Purchase of tangible assets	(1,976)	–	50	1,926	–
Net cash from investing activities	**(11,831)**	**6,184**	**–**	**–**	**(5,647)**
Financing activities					
Funds received in connection with share options	80	–	–	–	80
Net cash from financing activities	**80**	**–**	**–**	**–**	**80**
Net decrease in cash and cash equivalents	(22,901)	–	–	–	(22,901)
Cash and cash equivalents at beginning of year	34,916	–	–	–	34,916
Effect of foreign exchange rate changes	1,149	–	–	–	1,149
Other non-cash movements	(116)	–	–	–	(116)
Cash and cash equivalents at end of year	**13,048**	**–**	**–**	**–**	**13,048**

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Glossary

boepd
barrels of oil equivalent per day

km
kilometres

km^2
square kilometres

m^3/d
cubic metres per day

Mm^3
thousand cubic metres

$
United States Dollars

bopd
barrels per day

MMboe
million barrels of oil equivalent

Mcf
thousand cubic feet

Mcf/d
thousand cubic feet per day

MMcf
million cubic feet

MMcf/d
million cubic feet per day

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