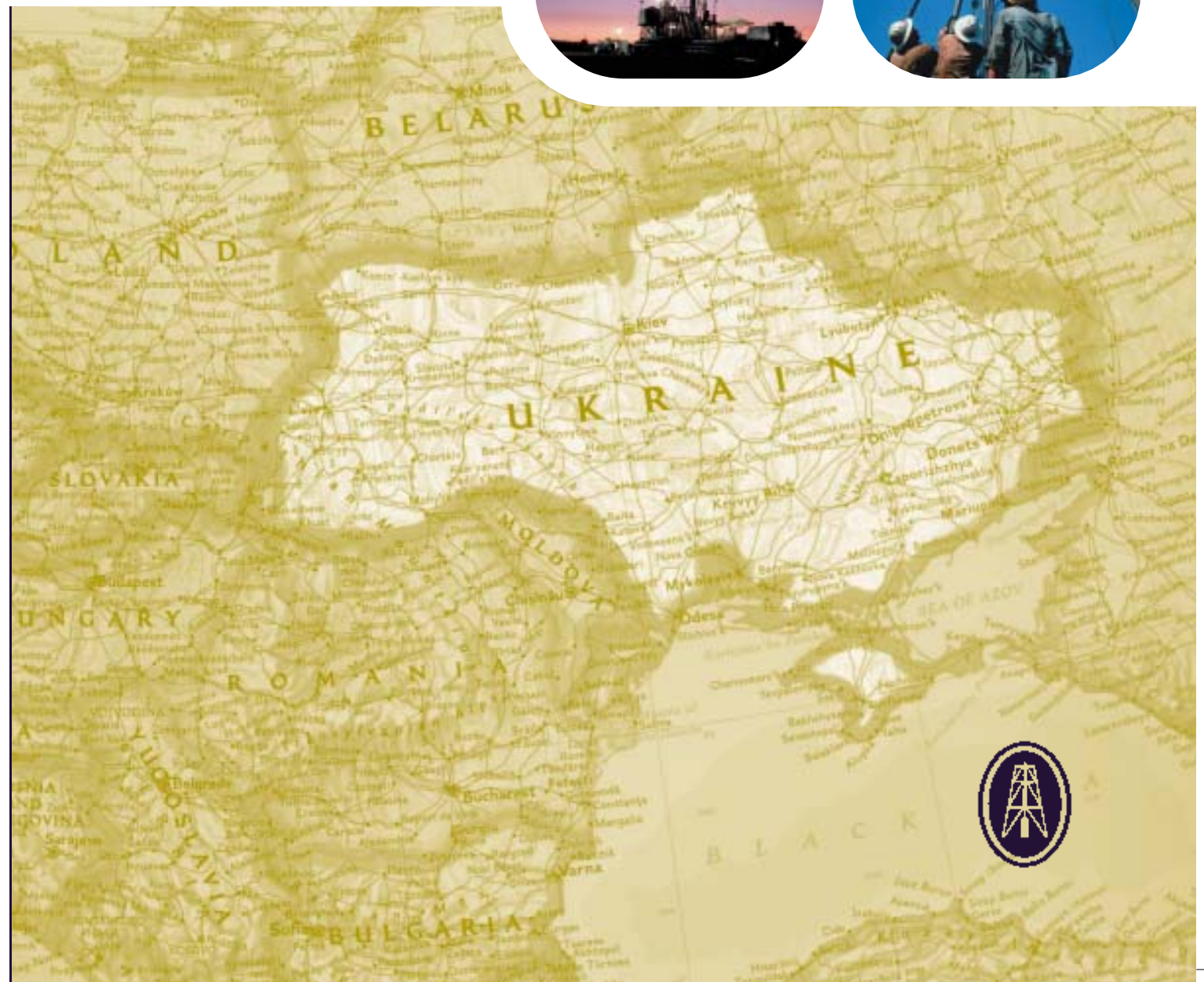


> **REGAL PETROLEUM PLC**

> **ADMISSION TO THE ALTERNATIVE
INVESTMENT MARKET**

**PLACING BY
EVOLUTION BEESON GREGORY**



THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

Notwithstanding that this document is an admission document prepared in accordance with the AIM Rules and the Public Offers of Securities Regulations 1995 (as amended) ("the Regulations"), this document does not comprise a prospectus and has not been delivered to the Registrar of Companies in England and Wales for registration in accordance with regulation 4(2) of the Regulations. Copies of this document will be available free of charge to the public during normal business hours on any day (Saturdays, Sundays and public holidays excepted) at the offices of Evolution Beeson Gregory Limited, The Registry, Royal Mint Court, London EC3N 4LB from the date of this document until the date being one month after the date on which Admission takes place, which is expected to be 27 September 2002.

APPLICATION HAS BEEN MADE FOR THE WHOLE OF THE ORDINARY SHARE CAPITAL OF REGAL PETROLEUM PLC, ISSUED AND TO BE ISSUED TO BE ADMITTED TO TRADING ON THE ALTERNATIVE INVESTMENT MARKET OF THE LONDON STOCK EXCHANGE PLC ("AIM"). AIM IS A MARKET DESIGNED PRIMARILY FOR EMERGING OR SMALLER COMPANIES TO WHICH A HIGHER INVESTMENT RISK TENDS TO BE ATTACHED THAN TO LARGER OR MORE ESTABLISHED COMPANIES. AIM SECURITIES ARE NOT ADMITTED TO THE OFFICIAL LIST OF THE UK LISTING AUTHORITY. A PROSPECTIVE INVESTOR SHOULD BE AWARE OF THE RISKS OF INVESTING IN SUCH COMPANIES AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER CAREFUL CONSIDERATION AND, IF APPROPRIATE, CONSULTATION WITH AN INDEPENDENT FINANCIAL ADVISER. THE LONDON STOCK EXCHANGE PLC HAS NOT ITSELF EXAMINED OR APPROVED THE CONTENTS OF THIS DOCUMENT.

INVESTMENT IN THE COMPANY INVOLVES A HIGH DEGREE OF RISK AND, IN PARTICULAR, THE ATTENTION OF POTENTIAL INVESTORS IN THE COMPANY IS DRAWN TO THE RISK FACTORS SET OUT IN PART II OF THIS DOCUMENT.

It is expected that Admission will become effective and that dealings will commence in the Ordinary Shares on 27 September 2002.

The Directors of the Company, whose names appear on page 3 of this document, accept responsibility, collectively and individually, for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Regal Petroleum plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 4462555)

Placing by

Evolution Beeson Gregory Limited

of 16,666,667 Ordinary Shares at 60 pence per Ordinary Share

and

Admission of the whole of the ordinary share capital to trading on the
Alternative Investment Market

Following Admission, the issued share capital of the Company will comprise 57,316,667 Ordinary Shares, all of which will be fully paid. The Placing Shares to be issued pursuant to the Placing will rank *pari passu* with existing Ordinary Shares in respect of all dividends and other distributions declared, made or paid by the Company following Admission. Evolution Beeson Gregory Limited which is regulated by the Financial Services Authority is acting as nominated adviser to the Company in connection with the matters described herein and for no-one else, and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Evolution Beeson Gregory Limited or for advising any other person on the arrangements described in this document. Evolution Beeson Gregory Limited has not authorised the contents of, or any part of, this document and no liability whatsoever is accepted by Evolution Beeson Gregory Limited for the accuracy of any information or opinions contained in this document or for the omission of any information.

The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, nor under the securities laws of any state of the United States of America nor under any securities laws of any province or territory of Canada nor has a prospectus in relation to the Ordinary Shares been lodged with or registered by the Australian Securities and Investments Commission. Accordingly, no offer of securities is made under this document in the United States of America, Canada or Australia and, subject to certain exceptions, the Placing Shares may not be offered, sold, resold or delivered directly or indirectly in or into these countries. In Canada, the Placing Shares are being offered on a private placement basis solely in the provinces of Ontario and Quebec. The noon fixing rate on 17 September 2002, as reported by the Bank of Canada for converting Canadian dollars to British pounds sterling was 0.41 pounds sterling (£) per Canadian dollar. This document is not, and in no circumstances is to be construed as, an advertisement or public offering of the securities referred to herein in Canada. This document does not constitute an offer to issue or sell, or the solicitation of an offer to subscribe or buy, any Ordinary Shares to any person in any jurisdiction to whom it would be unlawful to make such an offer or solicitation in such jurisdiction.

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DIRECTORS, SECRETARY AND ADVISERS

Directors	Vasile Frank Timis (<i>Executive Chairman</i>) Gregory Jonathan Lee (<i>Managing Director</i>) Glenn Robert Featherby (<i>Finance Director</i>) Frank David Wheatley (<i>Non-Executive Director</i>) William Henry Humphries (<i>Non-Executive Director</i>)	
Company Secretary	Stephen Paul West	
Registered Office	7th Floor, Hillgate House, 26 Old Bailey, London EC4M 7HW	
Nominated Adviser and Broker	Evolution Beeson Gregory Limited The Registry Royal Mint Court London EC3N 4LB	
Solicitors to the Company	<i>As to English Law:</i> Osborne Clarke Apex Plaza Forbury Road Reading RG1 1AX	<i>As to Ukrainian Law:</i> Vasil Kisil & Partners Suite 1 5/60 Zhylyanska Street Kyiv 01033 Ukraine
Solicitors to Evolution Beeson Gregory	Weil, Gotshal & Manges One South Place London EC2M 2WG	
Reporting Accountants	BDO Stoy Hayward 8 Baker Street London W1U 3LL	
Auditors	BDO Stoy Hayward 8 Baker Street London W1U 3LL	
Independent Expert	Troy – Ikoda Limited The Coach House 90 Alma Road Windsor Berkshire SL4 3ET	
Principal Bankers	HSBC Bank plc 79 Piccadilly London W1J 8EU	
Registrars	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH	

PLACING STATISTICS

Placing Price	60p
Number of Ordinary Shares in issue prior to the Placing	40,650,000
Number of Placing Shares being placed on behalf of the Company	16,666,667
Number of Ordinary Shares in issue immediately following Admission	57,316,667
Market capitalisation following the Placing at the Placing Price	£34 million
Total proceeds of the Placing	£10 million
Estimated net proceeds of the Placing receivable by the Company	£8.8 million
Percentage of the enlarged issued share capital available in the Placing	29.08%

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission and commencement of dealings on AIM of the issued Ordinary Shares and CREST stock accounts credited	27 September 2002
Where applicable, despatch of definitive share certificates	by 4 October 2002

DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

“Act”	the Companies Act 1985, as amended
“Admission”	the Admission of the entire issued share capital of the Company to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules governing the operation of AIM as published by the London Stock Exchange from time to time
“Board”	the board of directors of the Company as constituted from time to time
“Bridging Loan”	the loan agreement dated 11 September 2002 and made between Pericles Investments Limited and the Company relating to a bridging loan to the Company of £240,000, further details of which are set out in paragraph 11.4 of Part V of this document
“Chernihiv”	ChernihivNaftoGazgeologija, a state-owned company incorporated under the laws of Ukraine
“Company”	Regal Petroleum plc
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo is the Operator (as defined in the CREST Regulations) in accordance with which securities may be held or transferred in uncertificated form
“CRESTCo”	CRESTCo Limited
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
“Directors”	the directors of the Company whose names are set out on page 3 of this document
“Evolution Beeson Gregory”	Evolution Beeson Gregory Limited
“Executive Directors”	the executive directors of the Company at the date of Admission, being Frank Timis, Glenn Featherby and Gregory Lee
“Executive Incentive Arrangements”	the Executive Option Scheme and the Unapproved Share Option Arrangements
“Executive Option Scheme”	the executive option scheme pursuant to which reversionary interests have been granted further details of which are set out in paragraph 8.1 of Part V of this document
“Expert’s Report”	the report prepared by Troy-Ikoda, a copy of which is reproduced in Part III of this document
“Exploration Licences”	the three licences granted to Chernihiv on 27 June 2002 relating to the exploration and production of natural gas and condensate at sites in the Dneiper-Donets basin in north-east Ukraine and further details of which are set out in the Expert’s Report
“Gas Field”	the gas field which is the subject of the Exploration Licences
“Gazprom”	ОАО Gazprom, a company incorporated under the laws of Russia
“Independent Expert” or “Troy-Ikoda”	Troy-Ikoda Limited

“Joint Venture Agreement” or “Joint Venture”	the joint venture agreement dated 10 August 1999 and made between Regal Jersey and Chernihiv, further details of which are set out in paragraph 11.1 of Part V of this document
“Joint Venture Project”	the exploitation, on the terms of the Joint Venture Agreement, of the Exploration Licences and any production licences subsequently granted to Regal Jersey or Chernihiv which will be the subject of the Joint Venture Agreement
“Listing Rules”	the listing rules of the UK Listing Authority made for the purposes of Part VI of the Financial Services and Markets Act 2000
“Lock-In Period”	the period of 12 months from the date of Admission
“London Stock Exchange”	London Stock Exchange plc
“Mountfield Loan”	the loan agreement dated 30 May 2001 and made between Mountfield Commodities Limited and Regal Jersey relating to a loan to Regal Jersey of US\$1.125 million, further details of which are set out in paragraph 11.3 of Part V of this document
“Non-executive Directors”	the non-executive Directors of the Company at the date of Admission, being William Humphries and Frank Wheatley
“Ordinary Shares”	ordinary shares of 5p each in the capital of the Company
“Official List”	the Official List of the UK Listing Authority
“Placing”	the placing by Evolution Beeson Gregory of the Placing Shares pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 20 September 2002 and made between the Company, the Directors and Evolution Beeson Gregory, further details of which are set out in paragraph 11.6 of Part V of this document
“Placing Price”	60 pence per Placing Share
“Placing Shares”	the 16,666,667 new Ordinary Shares to be issued at the Placing Price by the Company pursuant to the Placing
“Regal Group” or “Group”	the Company and its subsidiary undertakings
“Regal Inc”	Regal Petroleum International Inc., a wholly owned subsidiary of Regal incorporated under the laws of the British Virgin Islands
“Regal Jersey”	Regal Petroleum Corporation Limited, a wholly owned subsidiary of the Company incorporated under the laws of Jersey
“Regal Ukraine”	Regal Petroleum Ukraine Corporation, a wholly owned subsidiary of Regal incorporated under the laws of Ukraine
“Regulations”	the Public Offers of Securities Regulations 1995 (as amended) (SI 1995 No. 1537)
“Remuneration Committee”	the remuneration committee of the Board from time to time comprising at the date of Admission, the Non-executive Directors
“Restricted Shares”	the 40,650,000 Ordinary Shares in issue immediately following the completion of the Share Exchange Agreement and shares derived from such shares

“Share Exchange Agreement”	the agreement dated 19 September 2002 and made between the shareholders of Regal Jersey, Regal Petroleum (Jersey) Limited and the Company pursuant to which Regal Petroleum (Jersey) Limited agreed to acquire the entire issued share capital of Regal Jersey, further details of which are set out in paragraph 11.5 of Part V of this document
“Shareholders”	holders of Ordinary Shares
“Trust”	the Regal Petroleum plc Employee Benefit Trust, further details of which are set out in paragraph 8.3 of Part V of this document
“Trustee”	the trustee from time to time of the Trust
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of section 72 of the Financial Services and Markets Act 2000
“Unapproved Share Option Arrangements”	the unapproved share option arrangements between the Company and certain Directors and senior employees, further details of which are set out in paragraph 8.2 of Part V of this document
“Uncertificated” or “in uncertificated form”	recorded on the register of Ordinary Shares as being held in uncertificated form in CREST, entitlement to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“US\$” or “US dollars”	US dollars
“US” or “United States”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia, and all other areas subject to its jurisdiction

GLOSSARY OF TERMS

“bbls”	barrels
“bcf”	billion cubic feet of gas at standard conditions
“billion”	one thousand million
“Bcm ³ ”	billion cubic metres
“Bsm ³ ”	billion standard cubic metres
“condensate”	hydrocarbons produced with gas which exist as gas at reservoir conditions but that condense out to a liquid phase as a result of a reduction in pressure and/or temperature
“km”	kilometres
“LPG”	liquified petroleum gas
“M”	thousand
“Mbbbls”	thousands of barrels
“Mm”	million
“Mmbbls”	millions of barrels
“Mmcf”	million cubic feet of gas at standard conditions
“Msm ³ ”	thousand standard cubic metres
“MMsm ³ ”	million standard cubic metres
“probable reserves”	probable reserves of petroleum are those unproved reserves which analysis of geological and engineering data suggest are more likely than not to be recoverable
“proven reserves”	proved reserves of petroleum are estimated quantities that geological and engineering data demonstrate with reasonable certainty to be recoverable in the future from known reservoirs, under current economic conditions and operating methods
“tcf”	trillion cubic feet of gas at standard conditions
“trillion”	one thousand billion
“work over”	work on a well with a drilling or workover rig which may include accessing more reserves, improving its existing performance or capacity, stimulating the wellbore, repairing the well or the production string

PART I

Information on the Group

Introduction and background

History

The Regal Group is an independent oil and gas exploration and production group. The Group was founded in November 1996 by the current chairman, Frank Timis, for the purpose of seeking opportunities in the oil and gas industry throughout Eastern Europe. The Company was incorporated on 17 June 2002, to form the holding company of the Group. The Company is now seeking to raise a total of approximately £8.8 million (net of expenses) by the issue of 16,666,667 new Ordinary Shares at 60p per Ordinary Share.

The Group's operations have initially been established in Ukraine with a view to exploiting the increasing energy requirements of Ukraine and its adjacent European countries and the deregulation of the commercial production of natural gas following Ukraine's independence from the former Soviet Union in 1991. In July 2002, the Group opened its head office in central London.

In furtherance of its strategy, the Group conducted reviews of a number of oil and gas projects in Ukraine between 1996 and 1999. Towards the end of this period, the Group developed a relationship with Chernihiv, a Ukrainian state-owned exploration and drilling company. In 1988, Chernihiv discovered the Gas Field in the Dneiper-Donets basin in north east Ukraine. This basin currently produces approximately 90 per cent. of Ukraine's gas and condensate.

Regal Group has invested approximately US\$8 million in identifying, assessing and developing the Gas Field to the point of initial production. The funds have been derived from shareholders' equity subscriptions, shareholder loans, loans from certain Directors and the proceeds of the Mountfield Loan. With effect from Admission, all of the shareholder and certain director loans will have been capitalised or waived and the Company intends to repay approximately US\$1.4 million being the aggregate amount outstanding under the Mountfield Loan and an outstanding director loan from the proceeds of the Placing.

The Joint Venture Project

Chernihiv's exploration licences were granted to it by the Ministry of Ecology and Natural Resources of Ukraine and are in respect of three areas in the Dneiper-Donets basin known as SV, MEX and GOL. The relationship between Chernihiv and Regal Jersey led to the Joint Venture Agreement being entered into in August 1999 under which Regal Jersey acquired a 75 per cent. interest in the Joint Venture Project. Further details of the terms of the Joint Venture Agreement are set out on page 12 under the heading "Current operations" and in paragraph 11.1 of Part V of this document.

Ukrainian operations

To date, 18 exploratory wells have been drilled by Chernihiv in the Gas Field. Of these wells, 12 have been flow-tested and demonstrated that commercial gas can be produced. The Group's operations are currently focused on the commercial production of gas from three wells in the Gas Field called MEX 3, GOL 1 and GOL 2. In addition, Regal Jersey has signed a contract for the drilling of a new development well, SV 52. Further details of the status of these wells are set out on page 12 under the heading "Current operations". The Independent Expert has estimated that the reserves in the Gas Field total approximately 25.1 Bsm³ of proven and probable natural gas reserves and approximately 5.84 MMsm³ of condensate reserves.

Following completion of the work over of the MEX 3 well, the Group commenced initial production in August 2002. MEX 3 is currently producing approximately 150 Msm³ of gas per day and approximately 2.3 tonnes of condensate per day. The Group has commenced the preparatory work to enable it to apply for a full production licence from the Ukrainian government and the

Directors expect the Joint Venture Project will have the benefit of such a licence within 12 months following Admission. Provided that a full production licence is granted, the Directors anticipate that, if the current field development plan is achieved, daily production from the Gas Field could rise to approximately 4.5 MMsm³ per day of gas and approximately 560 tonnes per day of condensate by the end of 2007 as further wells become fully operational.

The Directors intend to sell the gas the Group produces to private industrial companies (both domestically and to the export market) and to sell the condensate primarily to the domestic market. Initially, the Group intends to sell gas to the local market and has entered into a supply agreement with a Ukrainian gas trader. The Directors anticipate that once a sustainable level of gas production has been achieved, the Regal Group will export the majority of its gas since the price of exported gas is generally higher than that achieved locally. Further details relating to the Group's strategy and its potential markets are set out on page 11 under the heading "Group strategy".

Investment in Ukraine

Since Ukraine joined the World Bank in September 1992, the World Bank has been helping to facilitate the country's transition to a market-based economy. The World Bank's new Country Assistance Strategy ("CAS"), which was developed in close consultation with the government of Ukraine, for the period from 2001 to 2003 seeks to move Ukraine closer to the European Union standards, fostering sustainable environmental development. As part of the CAS, focus has been on completing and streamlining the institutional framework and improving governance in the public and private sectors. In response to satisfactory reform accomplishments achieved by the government of Ukraine and as part of the World Bank's portfolio in Ukraine, the World Bank has approved 20 loans and four Global Environment Facility grants totalling almost US\$3 billion. The World Bank's investment programme also includes support for the energy sector.

According to the Ukraine State Statistics Committee, as of 1 April 2002, the total volume of direct foreign investment into both state and private Ukrainian enterprises since 1992 had reached approximately US\$4.5 billion. Of this, approximately US\$305 million has been invested into the Donetsk region itself. It is also estimated that total foreign investment in Ukraine for 2002 will reach approximately US\$700 million.

The natural gas market

Natural gas is forecast to be the fastest growing component of world energy consumption. Natural gas consumption in 2020 is projected to total 162 tcf, nearly double the 1999 total of 84 tcf, and its share of total energy consumption is projected to increase from 23 per cent. in 1999 to 28 per cent. in 2020. Much of this forecast growth is in response to rising demand for natural gas to fuel efficient new gas turbine power plants. The use of natural gas is increasing for a variety of reasons, including price, environmental concerns, fuel diversification and/or energy issues, market deregulation (for both gas and electricity) and overall economic growth.

Ukraine

Demand for natural gas consumption is expected to rise an average of 2.3 per cent. per annum in Eastern Europe and the former Soviet Union over the next eighteen years. Ukraine has sizeable natural gas reserves of approximately 39.6 tcf. However, the country is currently a net importer of approximately 75 per cent. of its natural gas requirements, mostly from Russia, with Gazprom (Russia's largest gas producer) being the main supplier of imported gas. Ukraine also serves as a transit route for more than 90 per cent. of Russia's exports to Central and Eastern Europe for which Ukraine receives up to approximately 30 Bcm³ per annum of gas as payment from Gazprom.

The Ukraine government is considering the diversification of its sources of gas supply by developing imports from Central Asia, the Middle East and Norway. Increased domestic production is another means of furthering this diversification strategy.

The International Market

The international market for natural gas continues to grow, increasing from 20 per cent. of the world's consumption in 1999 to 22 per cent. in 2000. Whilst more than 50 per cent. of the world's oil consumption is traded internationally, gas markets tend to be more regional in nature, and prices can vary from country to country. As the use and trade of natural gas continues to grow, it is expected that pricing mechanisms will continue to evolve, facilitating international trade and paving the way for a global natural gas market.

The world's total natural gas reserves were estimated at 5,451 tcf on 1 January 2001 of which approximately 38 per cent. were located in the former Soviet Union. In 2001, Russia alone accounted for over 30 per cent. of the world total of natural gas supplied and was also the world's largest exporter of natural gas, supplying Europe with approximately 30 per cent. of its gas requirement.

Surrounding territories

The Romanian economy grew by 4.9 per cent. in 2001, more than any other Central and Eastern European country. Romania has the largest gas market in central Europe. In 2001, gas production amounted to 13 Bcm³ and accounted for 82.3 per cent. of Romania's total gas requirement, Romania imported 2.8 Bcm³ in this period. All of Romania's natural gas supply was sold on the domestic market and the major consumer was the industrial sector.

Elsewhere in Eastern Europe in 2000, Hungary imported 9.047 Bcm³ of gas, Poland imported 8.092 Bcm³ of gas, the Czech Republic imported 9.189 Bcm³ of gas and Croatia imported 1.11 Bcm³ of gas. In 2001, Hungary imported 9.585 Bcm³, Poland imported 8.778 Bcm³ and the Czech Republic imported 9.498 Bcm³.

Group strategy

The Company has established a Board with broad experience in the resources sector (particularly in Eastern Europe). The Board's expertise is particularly focussed upon petroleum asset operation and management, project development, financing and management of resource-related companies.

The Group's strategy is to fully exploit the commercial production of gas and condensate from the Gas Field. Initially, the Directors anticipate that gas will be produced from three wells (MEX 3, GOL 1 and GOL 2) and thereafter from additional wells in the Gas Field as they are made available for production.

The Directors intend to target private industrial companies, such as fertiliser producers, chemical manufacturers and steel plants, for the sale of the Group's gas both domestically and to the export market. Initially, the Regal Group intends to sell gas to the local market and has entered into a supply agreement with a Ukrainian gas trader. The Directors anticipate that once a sustainable level of gas production is achieved, the Regal Group will export the majority of its gas since the price of exported gas is generally higher than the local price. In order to establish the feasibility of the export of gas from Ukraine, in 2000, the Group purchased two million cubic metres of gas from a Ukrainian producer and sold it to a Romanian power company.

The Group intends to target customers in Central and Eastern Europe and discussions are taking place with a number of parties with the potential to export to countries including Poland, Hungary, Romania and the Balkan States. As the Group's production increases, the Group's marketing strategy will be to increase the volume supplied to existing customers and to seek new customers where this is commercially attractive.

The Group also intends to identify means to reduce the operating costs of gas production and also reduce the Group's exposure to state-owned and managed utilities. To this end, the Group is currently negotiating for the development of an independent processing facility to be based in the Gas Field and which would be leased from a third party engineering and processing development group. The Directors believe that use of this facility would accordingly result in significant cost savings for the Group as well as reducing its dependence on the state-owned processing company, UkrNafta.

The future strategy of the Group will be to identify and acquire further oil and gas reserves. In the light of the expertise and contacts of the Board and senior management it is likely that these future projects will be located either in Ukraine or other Central and Eastern European countries.

Current operations

Gas Field location

The Gas Field is situated in north-east Ukraine in the Poltava Oblast Province about 200 kilometres east of Kiev. The Gas Field itself is situated within the Dneiper Donets sedimentary basin, the most significant gas producing area of Ukraine which is responsible for approximately 90 per cent. of Ukrainian gas production.

The location of the Dneiper Donets basin, the Gas Field and Regal's current wells are set out in the diagrams on page 34 of Part III of this document.

The Joint Venture Agreement and Exploration Licences

On 10 August 1999, Regal Jersey acquired its interest in the Joint Venture Project on signing the Joint Venture Agreement with Chernihiv. Pursuant to the Joint Venture Agreement, Regal Jersey is responsible for procuring funding for 100 per cent. of the capital expenditure requirements for developing the Gas Field with 90 per cent. of the resulting revenues arising from the Joint Venture Project (after deduction of costs) being allocated to repayment of the interest and principal amounts of such funding.

The remaining 10 per cent. of resulting net revenues is available for distribution to the parties, with Regal Jersey entitled to 75 per cent., although it is the intention of the Directors and has been verbally agreed by the parties to the Joint Venture Agreement that until the amount required to service the loans to the Joint Venture Project falls below 90 per cent. of the net revenues, Chernihiv will be entitled to the full 10 per cent. as an advance payment against its future entitlement to revenues. Since the Joint Venture Agreement was signed, legislation relating to profit-sharing has been introduced in Ukraine. Whilst this does not affect the operation of the Joint Venture Project, it would apply to any new projects in Ukraine or to any negotiation of the existing arrangements with Chernihiv and may result in Regal Jersey obtaining less favourable terms as regards profit distribution.

The Joint Venture Project currently has the benefit of three licences, each of which was re-issued on 27 June 2002 by the Ministry of Ecology and Natural Resources of Ukraine. The licences are valid for two years. The licences were granted to Chernihiv for works to be carried out under the Joint Venture Agreement. Between them, the licences cover an area of 140 square kilometres in the Svyrydivske gas field (SV 52), 44 square kilometres relating to the Mehedivsko site in the Golotovshinske gas field (MEX 3) and 85 square kilometres in the Golotovshinske gas field (GOL 1 and GOL 2). The licences permit exploratory exploitation of the wells and evaluation of gas resources by the relevant state committee and some further commercial production as well as allowing the production of up to 10 per cent. of the Gas Field's total available reserves.

Production

MEX 3 has been recently worked over and is in commercial production. The initial test rate after the workover was approximately 160 Msm³ per day and approximately 5 tonnes per day of condensate. The well has been producing a stabilised flow of 150 Msm³ per day of gas and 2.3 tonnes per day of condensate since August 2002.

Drilling and workovers

GOL 2

GOL 2 was drilled to a total depth of 5,302 metres and the production casing has been installed. Open hole logs indicated the same characteristics as GOL 1 which produced at a stabilised rate of between 160 and 190 Msm³ per day of gas and between 11 and 13 tonnes per day of condensate.

GOL 2 is to be perforated and tested over the B23 interval for an extended period prior to commercialisation. A flowline is being constructed to the current processing facilities.

GOL 1

Preparations are under way to commence a workover on this well. Technical information has been compiled for this well to enable a programme to be completed and equipment and a suitable workover rig to be sourced. A connection point has been planned to connect GOL 1 to the processing facilities by means of the main flowline once it has been worked over and is ready for production. The current target is for the well to be completed and in commercial production by the end of the year.

SV 52

The location has been constructed and the drilling rig has been installed and commissioned. Drilling has commenced on this well and the current target is for the well to be completed and in commercial production by the end of 2003.

Additional activities

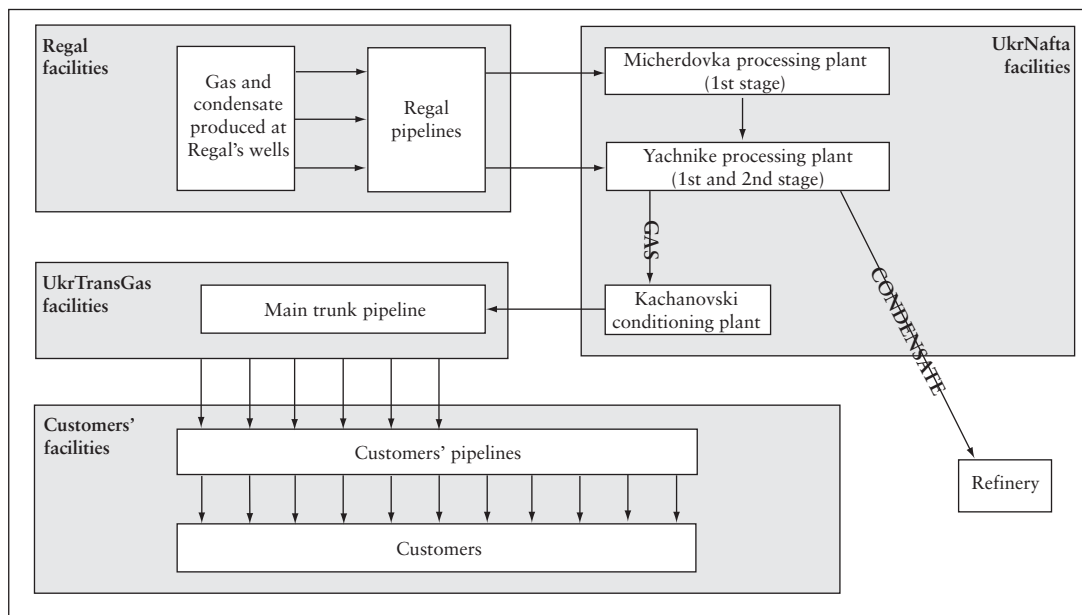
Two other potential well workover candidates have been identified and information is being compiled by the Group on the condition and history of these wells to assess the economic viability of workovers.

Tenders for drilling rigs have been despatched to European and Ukrainian drilling contractors. The contract for drilling services is expected to be awarded in October 2002.

Combined gas samples from the Gas Field are being collected and analysed. The results will be passed on to a third party engineering and processing development group for the final design and costing of the gas plant to be completed. Planning applications are in the process of being submitted and it is expected that construction of the processing plant will commence during 2002.

Product processing

Regal Group's current gas production process can be illustrated as follows:



The fluids produced from a particular well require treatment to separate the products into gas, water and condensate. Once at the surface, the fluids from each well are directed along an individual flowline to a manifold connected to a basic process treatment facility. At the manifold the well fluids are either directed to a bulk separator where the majority of liquids are removed from the main gas stream or directed to a test separator where the produced fluids and gas from any individual well can be separated and measured. The liquid product from the test and bulk separators is then further separated into condensate and water. The water is generally disposed of by injection into a water disposal well and the condensate is measured and either sent to storage prior to sale or further refined, if necessary.

The gas from the test and bulk separators is also measured and then allowed to flow to a more complex gas process plant where it is conditioned to meet export standards. This processing plant is designed to remove all remaining liquids, inerts and other contaminants and prepares the gas to meet local and international gas specifications. The plant is also designed to extract valuable LPGs from the gas stream, although under the existing arrangements these belong to the owner of the processing plant. Once the gas is to specification it is again measured and sent to the main distribution gas line for sale.

There are basic separation facilities in the Gas Field (namely at Yachnike and Micherdovka) owned by UkrNafta, a state-owned entity. These facilities are old and have limited capacity, however in the short term, the produced fluids from the Gas Field will be measured and separated here. The condensate will be sold locally and the gas will be sent to a complex processing plant at Kachanovski 30 kilometres away for final conditioning. Regal Group will be paid for gas at the basic gas facility at Yachnike or Micherdovka. The current system will allow the Group to produce gas without incurring delay by building its own processing infrastructure.

The Company is currently in negotiations with a third party engineering and processing development group to design, manufacture, install, commission, operate and maintain a compact compartmentalised modern gas processing plant. This plant can be expanded or reduced to meet the Company's production requirements and will treat the gas to meet export standards.

It is intended that this process plant will be leased and the Company is negotiating to obtain an option to purchase after five, ten or fifteen years. The Group would therefore have no capital outlay and would not have to carry an expensive inventory of back up equipment as the third party would provide all spares, perform all maintenance and operation of the facility and train and utilise the local workforce in order to reduce costs and the dependence on expatriate labour.

This plant should considerably reduce the current process treatment costs and reduce dependence on the state-owned enterprises. The Directors believe that this gas processing plant will be in operation within 6 months from Admission.

Sale of product

The current custody transfer location recognised by the authorities is located at the UkrNafta processing facilities where there is a standard orifice meter used for measuring the gas. At this location all the relevant documentation, comprising a certificate of origin, a signed authorised certificate of the volume of gas sold from the Gas Field and an invoice to the customer, will be provided. Local sales are expected to be paid in cash in advance or secured by appropriate letters of credit. Letters of credit will be required to support export sales.

The Company intends that sales of its gas (both internationally and domestically) will be in US Dollars. It is expected that the price obtainable will vary and will depend upon market conditions, the prevailing price generally in Ukraine and the quantities to be supplied by the Group. The export price for gas from Ukraine at the end of 2001, was between approximately US\$95 and US\$120 per 1,000 cubic metres, depending upon the country importing it. The price for the domestic supply of gas in Ukraine at the end of 2001, was between approximately US\$50 to US\$60 per 1,000 cubic metres.

The Group does not require any formal licences or permits to export gas from Ukraine, but does need to follow certain export protocols and pay state export duties at the rate of 0.2 per cent. of the sales value of the gas. The Group will be dependent upon state-owned gas transit and distribution systems for the transport and export of its gas.

Competition

Whilst the Ukrainian natural gas market remains highly monopolised and state controlled, a small number of private, including foreign, companies operate in this market place. Most of these are exploiting Ukraine's gas reserves through joint venture or other similar agreements with state-owned enterprises. It has been estimated that foreign companies' total share of the Ukrainian gas market is currently around 4 per cent. as at January 2002.

Naftogas, a company formed by the Ukrainian government in May 1998 with the purpose of integrating all state assets in the oil and gas industry, is Ukraine's largest oil and gas company, controlling approximately 60 per cent. of the Ukrainian gas trading market.

Gazprom is the world's largest gas company and exporter of natural gas and it accounts for 94 per cent. of Russia's gas production (23 per cent. of the world output). It currently produces approximately 8 per cent. of the country's gross domestic product and contributes about 25 per cent. of all tax revenues to the federal budget. Apart from the extraction of gas at prospected fields, Gazprom also develops new fields and builds trans-continental gas pipelines. It is engaged in much work with the regions of the Russian Federation and continues to carry out large-scale programs to provide new territories with gas. Its deliveries cover about 20 per cent. of the natural gas requirements of Western Europe and almost all of the needs of Eastern Europe.

The Directors believe that there are significant barriers to the entry of competing companies into the Ukrainian oil and gas industry. In particular, there is a requirement for significant investment in capital and technical expertise. The Directors further believe that the Group's accumulated knowledge and relationships, developed in the region since 1996, provide it with a competitive advantage over potential new entrants.

Directors, senior management and employees

Brief biographies of the Directors and senior management of the Group are set out below. Paragraph 5 of Part V of this document contains further details of current and past directorships and certain other important information regarding the Directors.

Executive Directors

Vasile Frank Timis, aged 38 – Executive Chairman

Frank Timis founded Regal Jersey in November 1996 to seek opportunities in the oil and gas industry in Eastern Europe. Mr Timis has significant business contacts in Romania and Eastern Europe. He is currently executive chairman of Gabriel Resources Limited, a gold mining company listed on the Toronto Stock Exchange and a member of the TSE 300 Composite Index. As at 30 August 2002 Gabriel Resources Limited had a market capitalisation of approximately US\$360 million. He is also currently chief executive of European Goldfields Limited, a precious metal exploration company listed on the Canadian Ventures Exchange. Both of these companies have significant interests in Eastern Europe. Under the terms of his service agreement Mr Timis will devote up to 10 hours per week to his duties as Executive Chairman of the Company. Further details of Mr Timis' service agreement are set out in paragraph 7 of Part V of this document.

Gregory Jonathan Lee, aged 46 – Managing Director

Gregory Lee became a chartered professional engineer in 1987 and is a member of the Institute of Engineers (Australia) and the society of Petroleum Engineers. He has over 20 years' experience in petroleum engineering, drilling and production operations. He has been an independent consultant petroleum engineer to major oil and gas companies since July 1991. Prior to his consulting work Mr Lee worked for West Australia Petroleum Limited (a Chevron, Texaco, Shell and Ampol joint venture), Western Mining Corporation Limited (Petroleum Division), Bond Petroleum Pty. Limited and, via a contractor, Woodside Petroleum Limited.

Glenn Robert Featherby, aged 46 – Finance Director

Glenn Featherby is a Chartered Accountant and member of the Institute of Chartered Accountants in Australia. He has over 20 years' experience in corporate advisory work and has worked extensively in the resources sector. He worked with KPMG in Perth, Western Australia and London before establishing his own accounting practice in Perth in 1998. He has also been a non-executive director of Gabriel Resources Limited. Prior to joining the Board, Mr Featherby acted as financial consultant to the Group since it was founded and has extensive experience in the Eastern European market.

Frank David Wheatley, aged 44 – Non-Executive Director

Frank Wheatley is a lawyer who was called to the Canadian bar in 1985. He holds a B.Comm (Finance) degree and a law degree from the University of British Columbia and he practised at a number of Vancouver law firms before moving into industry in 1996. He was Vice President of Legal Affairs at Eldorado Gold Corporation in Canada between 1996 and 1998. Mr Wheatley is currently a director of Gabriel Resources Limited.

William Henry Humphries, aged 61 – Non-Executive Director

William Humphries has 30 years' experience in the mining and civil engineering industries of Western Australia. From 1996 to 1998 he was the general manager of Sardinia Gold Mining SpA. From January 1999 to July 2002 he was the managing director of Brancote Holdings PLC, a mining company listed on AIM. On 3 July 2002, Meridian Gold, Inc., a company listed on the Toronto and New York Stock Exchanges, announced that its £159 million offer for Brancote Holdings PLC had been declared unconditional in all respects. Mr Humphries is currently president of Landore Resources Inc, a mining company listed on the Canadian Ventures Exchange.

Senior Management

Viktor Ivan Dmitriyev, aged 47 – President, Ukraine Operations

Viktor Dmitriyev is a Ukrainian born naturalised American citizen and an honorary member of the Ukrainian Oil & Gas Academy. He is responsible for management of the day to day activities of Regal Group in Ukraine, including planning and co-ordination of drilling and production activities, management of all local and state government requirements and all political and geopolitical issues. In addition, he is responsible for financial management of local contracts and contractors, cost control and local taxation matters.

Stephen Paul West, aged 29 – Financial Controller

Stephen West is a Chartered Accountant and member of the Institute of Chartered Accountants in Australia. He has worked at Horwath Perth and PricewaterhouseCoopers in Australia and more recently at Barclays Capital in London. He has extensive experience in financial and management reporting together with several years' project management experience.

Employees

As at the date of this document, Regal Group had the following workforce (excluding Directors) all of whom, with the exception of Stephen West (who is based in London), are based in Ukraine.

	<i>Number of Employees</i>
Management	1
Finance	3
Operations	3
Administration	7
	<hr/>
	14
	<hr/> <hr/>

Financial information

The table below summarises the trading results of the Group for the three years ended 31 December 2001 and the six months ended 30 June 2002. The information has been extracted without material adjustment from the Accountants' Reports set out in Part IV of this document. **In order to make a proper assessment of the financial performance of the Group's business, investors should not rely solely on the summary information set out below but should read the whole of this document including the Accountants' Reports.**

	<i>Year ended 31 December</i>			<i>Six months ended</i>
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>30 June</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Turnover	—	1,395	—	—
Gross profit	—	207	—	—
Operating loss	(1,240)	(739)	(829)	(829)
Loss on ordinary activities before taxation	(1,266)	(876)	(1,007)	(1,009)

Current trading and prospects

Following completion of the work over of the MEX 3 well in July 2002, the Group commenced initial production in August 2002. MEX 3 is currently producing approximately 150 Msm³ of gas per day and approximately 2.3 tonnes of condensate per day.

The Group has completed the drilling of GOL 2 and this well is currently being tested prior to commercialisation and production. The Directors anticipate that this well will commence production by the end of 2002. A further well, GOL 1, has been identified and preparations are under way to commence a work over on this well. The Directors anticipate that this well will commence production by the end of 2002. In addition, the Group has commenced the drilling of a third well, SV 52. The drilling rig has been installed and commissioned and drilling has commenced. The Directors anticipate that this well will commence production by the end of 2003.

Two other potential well workover candidates have been identified and information is being compiled by the Group on the condition and history of these wells to assess the economic viability of workovers.

Provided that a full production licence is granted, and if the current field development plan is achieved, the Directors anticipate that daily production from the Gas Field could rise to approximately 4.5 MMsm³ per day of gas and approximately 560 tonnes of condensate per day by the end of 2007 as further wells become fully operational.

Reasons for the Placing and use of proceeds

The Directors believe that the Admission of the Company's shares to trading on AIM will be an important step in the Group's expansion.

The proceeds of the placing of the Placing Shares will enable the Group to invest further in the development of the Gas Field and provide the Group with the financial flexibility to secure further gas and oil reserves in Ukraine and adjacent territories. The Group also intends to reduce its gearing through the repayment of the Mountfield Loan, the Bridging Loan and the outstanding loan to a Director.

The Directors believe that further debt or equity financing may be required by the Group in the future in order to acquire and develop further projects and that therefore the access to a broader shareholder base will assist in this process.

The Directors further believe that the Company will benefit from the creation of a market in its shares and from the enhanced profile that derives from Admission with current and prospective customers, partners, and in the oil and gas industry generally.

Details of the Placing

The Placing comprises the issue of 16,666,667 new Ordinary Shares by the Company to raise approximately £8.8 million, net of expenses. Evolution Beeson Gregory has agreed to use its reasonable endeavours, as agent for the Company, to procure subscribers for the Placing Shares.

The Placing Shares will be issued credited as fully paid and will, when issued, rank *pari passu* with the existing Ordinary Shares in issue including the right to receive all dividends and other distributions, thereafter declared, made or paid.

The Placing is not being underwritten and is conditional, *inter alia*, upon:

- (a) the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and
- (b) Admission becoming effective no later than 27 September 2002, or such later date as Evolution Beeson Gregory and the Company may agree, being in any event not later than 20 October 2002.

Further details of the Placing Agreement are set out in paragraph 11.6 of Part V of this document.

Executive Incentive Arrangements

The Board recognises the need to attract, incentivise and retain employees and, to this end, the Group has established the Executive Incentive Arrangements. The Board may establish, after Admission, further employee share schemes with provisions similar to those in the Executive Incentive Arrangements.

The Board intends to grant options or awards to subscribe and or issue shares in relation to employee share schemes over up to 10 per cent. of the issued Ordinary Share capital of the Company, from time to time, to employees and Directors in addition to any options or awards either in existence prior to Admission or granted conditional upon Admission and/or options or awards over existing Ordinary Shares.

Options or awards granted following Admission under employee share schemes will be subject to performance criteria specified to the Board by the Remuneration Committee and generally will not be granted at an exercise price which is below the average market value of an Ordinary Share on the three business days immediately prior to grant.

Details of the Executive Incentive Arrangements are set out in paragraph 8 of Part V of this document.

Lock-in arrangements and orderly market agreements

In accordance with the AIM Rules, the Directors and Viktor Dmitriyev have agreed (subject to certain exceptions) not to dispose of their interests, or those of their connected parties, in Ordinary Shares held on Admission during the Lock-In Period. In order to maintain an orderly market in the Ordinary Shares the Directors and Viktor Dmitriyev have further agreed not to dispose of their interests, or those of their connected parties, in Ordinary Shares for the 12 month period following the expiry of the Lock-In Period otherwise than through Evolution Beeson Gregory for such time as it shall remain broker to the Company. Further details of these arrangements are set out in paragraph 11.8 of Part V of this document.

In order to provide appropriate lock-in arrangements for existing Shareholders, the Company's Articles of Association provide that the Directors may refuse to register the transfer of Restricted Shares, other than in respect of certain "Permitted Transfers", for the Lock-in Period. The Directors may only consent to a transfer of Restricted Shares after consultation with and subject to the agreement of Evolution Beeson Gregory. Further details of these provisions are set out in paragraph 4.2(c) of Part V of this document. In order to maintain an orderly market in the Ordinary Shares, certain other Shareholders have also agreed not to dispose of their interests, or those of their connected parties, in Ordinary Shares for a period of 12 months following the expiry of the Lock-In Period otherwise than through Evolution Beeson Gregory for such time as it shall remain broker to the Company. Further details of these arrangements are set out in paragraph 11.9 of Part V of this document.

Dividend policy

It is not anticipated that the Company will pay any dividends in the 12 months immediately following Admission. Any earnings will be reinvested in developing the business of the Group. The declaration and payment by the Company of any future dividends and the amount of any such dividends will depend upon the Group's results, financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed by the Directors to be relevant at the time.

Admission, settlement and dealings

Application has been made to the London Stock Exchange for all of the existing Ordinary Shares and the Placing Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence in the Ordinary Shares on 27 September 2002.

No temporary documents will be issued. All documents sent by or to a placee, or at his direction, will be sent through the post at the placee's risk. Pending the despatch of definitive share certificates, instruments of transfer will be certified against the register of members of the Company.

The Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission and CREST has agreed to such admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if individual Shareholders so wish.

Corporate governance

The Directors intend that the Company will, so far as is appropriate having regard to the size of the Company, comply with the Principles of Good Governance and Code of Best Practice prepared by the Committee on Corporate Governance, chaired by Sir Ronald Hampel, published in June 1988.

The Board has established an audit committee and the Remuneration Committee with formally delegated duties and responsibilities.

The audit committee (consisting of William Humphries and Frank Wheatley) will be responsible for reviewing reports from management and the Company's auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the Group. The audit committee will have unrestricted access to the Company's auditors.

The Remuneration Committee (consisting of William Humphries and Frank Wheatley) will review the scale and structure of the executive directors' remuneration and the terms of their service contracts. The remuneration and term and conditions of appointment of the non-executive directors are set by the Board. No Director may participate in any meeting at which discussions or decisions regarding his own remuneration take place.

William Humphries and Frank Wheatley are interested in Ordinary Shares and hold options in respect of Ordinary Shares. The Company does not consider that these interests, which serve to align these Non-executive Directors with the interests of Shareholders generally, adversely affect their independence as Non-executive Directors.

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.

Additional information

Your attention is drawn to Part II of this document which contains risk factors relating to any investment in the Company and to Parts III to V of this document which contain further information on the Group.

PART II

Risk Factors

AN INVESTMENT IN THE COMPANY IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK as the Group has a short operational history and its principal business activity is that of natural gas exploration and production. In addition to the usual risks associated with an investment in a business at an early stage of development, the Directors believe that, in particular, the following risk factors should be considered. It should be noted that this list is not exhaustive and that other risk factors may apply.

An investment in the Company may not be suitable for all recipients of this document.

Investors are accordingly advised to consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 and who specialises in advising on the acquisition of shares and other securities before making a decision to invest.

Exploration, production and general operational risks

The business of exploration for and production of gas and other resources involves a high degree of risk. In particular, the operations of the Group, may be disrupted by a variety of risks and hazards which are beyond the control of the Group, including environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected rock formations, flooding and extended interruptions due to inclement or hazardous weather conditions, explosions and other accidents. These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability.

The nature of reserve quantification studies means that there can be no guarantee that estimates of quantities and quality of gas disclosed will be available for extraction.

Delays in the construction and commissioning of projects or other technical difficulties may result in the Group's current or future projected target dates for production being delayed or further capital expenditure being required.

Uninsured risks

The Group, as a participant in gas extraction projects, may become subject to liability for hazards which cannot be insured against or against which it may elect not to be insured because of high premium costs or other commercial reasons. The Group may incur liabilities to third parties (in excess of any insurance cover) arising from pollution or other damage or injury. There can be no assurance that the Company will be able to obtain insurance at reasonable rates (or at all), or that any coverage it obtains will be adequate and available to cover any such claims.

Exploration, production and other licences

The Group's exploration and production activities are dependent upon the grant and maintenance of appropriate licences, concessions, leases, permits and regulatory consents ("Authorisations") which may not be granted or may be withdrawn or made subject to limitations. Although the Group believes that the Authorisations required for the Joint Venture Project will be renewed following expiry or granted (as the case may be), there can be no assurance that such Authorisations will be renewed or granted or as to the terms of such grants or renewals.

The areas covered by the Authorisations are or may be subject to agreements with the proprietors of the land. If such agreements are terminated, found void or otherwise challenged, the Group may suffer significant damage through the loss of the opportunity to identify and extract gas on that tenement.

Volatility of gas prices

The profitability of the Group's operations will be dependent, *inter alia*, upon the market price of natural gas which has fluctuated in the past. Gas prices are affected by numerous factors beyond the control of the Group, including international economic and political conditions, levels of supply and demand, and currency exchange rates. Movements in market prices could render uneconomic any of the extraction and production activities undertaken or to be undertaken.

Financing risks

The Directors are of the opinion that, taking into account the net proceeds of the Placing, the Group has sufficient working capital for its present requirements, that is, for at least 12 months from the date of Admission. Thereafter and in order to further expand its business generally and also to accelerate the commercial production of gas from the Gas Field, the Group may be required to raise additional equity or debt capital in the future. There can be no assurance that such funding required by the Group will be made available to it and, if such funding is available, that it will be offered on reasonable terms.

Short operating history

The Group's business operations are at an early stage of development and its success will depend largely upon the outcome of the projects that the Group is undertaking and proposes to undertake. In particular, in order to maximise its return from the Joint Venture Project, it will be necessary for the Group to develop a customer base outside of Ukraine. As the Joint Venture Project is currently producing only very limited quantities of gas, the marketing effort for export is at a very early stage and any material delays in establishing such a customer base may result in the development of the Group's business being delayed.

Competitive risk

The Group will have a number of competitors in relation to its operations in Eastern Europe, most of which are very much larger than the Group, with greater financial resources and a track history of gas production and/or marketing. It is impossible to foresee the effect that this might have on the Group's operations, as regards the establishment of its customer base, the price it is able to obtain for its gas, and any other commercial pressures which might be brought to bear.

Environmental and other regulatory requirements

As the Group is involved in gas production, it is subject to extensive environmental laws and regulations in the Ukraine. The Group has experienced and may continue to experience increased costs of production arising from compliance with Ukrainian environmental laws and regulations. Whilst the Group believes that its current provision for compliance with Ukrainian environmental laws and regulations is reasonable, any future change and development in environmental regulation may adversely effect its operations. In the future, the Group may incur significant costs associated with complying with more stringent requirements imposed by new legislation and regulations. This may include the need to increase and accelerate expenditure on environmental rehabilitation, which could have a material adverse effect on the Group's results and financial condition. In particular, the export of gas from Ukraine is not of itself the subject of heavy governmental regulation. Although the Directors are not aware of any current proposals to increase the level of regulation there can be no certainty that this will not occur, and if it does this could have an adverse effect on the ability of the Company to carry out its export plans.

Risk of foreign operations

The Group's natural gas projects are, at the date of this document, located in the foreign jurisdiction of Ukraine. As a result, the Group may be subject to political, economic and other uncertainties, including, but not limited to, changes in energy policies or the personnel administering them, nationalisation or expropriation of property, cancellation or modification of contractual rights, foreign exchange restrictions, currency fluctuations, royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which the Group's operations are conducted.

In the event of a dispute arising in connection with its foreign operations, the Group may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of the Group's home jurisdiction or enforcing judgements obtained in its home jurisdiction in such other jurisdictions.

Dependence upon partners

The success of the Group's foreign operations depends to some extent on the performance of its joint venture partner, Chernihiv. This organisation provides the key nexus with the regulatory and governmental contacts in Ukraine necessary to ensure continued support of the government of the Ukraine. In the future, it may be relied upon to assist in dealing with local authorities and fulfilling licence conditions.

Inadequate performance in any of these areas in the future may result in performance delays or amendments to the Joint Venture Project.

The Exploration Licences are vested in Chernihiv, and the Group's economic interest in the Joint Venture Project is dependent upon continued mutual co-operation with Chernihiv and the continuing subsistence and enforceability of the Joint Venture Agreement. The Joint Venture Agreement is terminable under certain circumstances including, without limitation material default by Regal Jersey. Although the Directors are not aware of any reason entitling Chernihiv to terminate the Joint Venture Agreement, or of any specific reason why any should arise, there can be no certainty that under all circumstances the Group would continue to have the benefit of the Joint Venture Agreement. Chernihiv is a state-owned corporation, and, as such, its own policy is or may be vulnerable to some of the risks set out under the heading "Risk of foreign operations" above.

In addition, the Group is currently dependent upon third parties to process its gas and upon existing infrastructure for its transport. As such, its production and /or sale of gas may be hindered by factors outside of its control.

Key personnel risk

The Group's current and proposed operations in Ukraine are, in particular, dependent upon the continuing employment and business contacts of Mr Dmitriyev, who is Ukrainian born and has extensive experience of the oil and gas industry in Ukraine. The ability of the Group to implement its plans in relation to the exploitation of the Joint Venture Project and to implement the Group's policy of sourcing and developing other projects is also dependent upon its management team, and in particular Mr Timis. Although the Group anticipates having the benefit of key man life insurance in respect of Mr Dmitriyev following Admission, such coverage has not currently been obtained in respect of Mr Timis. The unavailability of Mr Timis and Mr Dmitriyev to the Group, for whatever reason, would be likely to have an adverse effect on the ability of the Group to exploit the Joint Venture Project and to carry out its current strategy.

Legislative changes

Changes in governmental regulations and policies may adversely affect the financial performance of the Group.

Future Ukrainian legislation and regulations relating to labour may further increase the Group's costs or otherwise alter the Group's relationship with its employees.

General economic conditions

Changes in the general economic climate in which the Group operates may adversely affect the financial performance of the Group. Factors which may contribute to that general economic climate include, the level of direct and indirect competition against the Group, industrial disruption, the rate of growth of Ukraine's gross domestic product, interest rates and the rate of inflation.

Other risk factors

The Ordinary Shares will be traded on AIM rather than the Official List. An investment in shares traded on AIM may carry a higher risk than an investment in shares listed on the Official List.

Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment, especially as the market in the Ordinary Shares on AIM may have limited liquidity.

The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets.

The price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. Investors may realise less than the original amount invested.

PART III
Expert's Report



The Directors
Evolution Beeson Gregory Limited
The Registry
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London EC3N 4LB

The Directors
Regal Petroleum plc
7th Floor
Hillgate House
26 Old Bailey
London EC4M 7HW

20 September 2002

Gentlemen,

REGAL PETROLEUM PLC
EVALUATION OF THE CHERNIHIV SV, GOL, MEX LICENCES

Evolution Beeson Gregory Limited has requested that Troy-Ikoda Limited (“Troy-Ikoda”) provide an independent evaluation of the assets of Regal Petroleum plc (“Regal”) in connection with the application for the admission to trading on the Alternative Investment Market of the London Stock Exchange plc of the entire issued and to be issued share capital of Regal. Regal’s principal asset is a producing gas condensate field in the Ukraine known as Chernihiv Svyrydivske (SV), Golotovschinska (GOL), Mekhediviska (MEX).

The work was undertaken by a team of Troy-Ikoda’s professional petroleum engineers, geoscientists and economists based on data supplied by the Calgary based independent oil and gas consultants McDaniel & Associates Consultants Limited (“McDaniel”) and Regal. The data comprised details of licence and acreage interests, basic exploration and geological and engineering data, interpreted data, technical report, cost and commercial data, development plan and field performance review.

Our approach has been to commence our evaluation with an audit of the McDaniel field evaluation dated 1 July 2000. The available data and interpretation have been independently reviewed for reasonableness and we have modified the McDaniel estimates of petroleum in-place and reserves based on this assessment. We have modified the resulting production forecasts accordingly to conform to our estimates of reserves.

In estimating petroleum in-place and reserves we have used the standard techniques of petroleum engineering. These techniques combine geological and geophysical knowledge with detailed information concerning porosity and permeability distributions, fluid characteristics and reservoir pressure. There is uncertainty inherent in the measurement and interpretation of basic data. We have estimated the degree of this uncertainty and have used statistical methods to calculate the range of petroleum initially in place and recoverable. The reserve estimates shown in this report are consistent with the definitions set forth by the UK Listing Authority.

The commercial gas field, Chernihiv SV, GOL, MEX consists of three licences which cover part of a large gas accumulation which contains eleven separate gas-filled reservoirs. To date there has been limited production from four wells. Regal has proposed a development plan to fully develop

the field and this evaluation is based on Regal's plan which we consider to be reasonable and appropriate for the commercial development of the gas and condensate accumulation. Troy-Ikoda has not verified Regal's title to the licences and has not visited the site.

Troy-Ikoda has not verified the technical competence of the current operator of the licences. However, based on our experience in the area, we believe they are likely to be of a similar competence to other operating companies within the former Soviet Union.

Gas Reserve Volumes attributable to the Regal Interest (75 per cent.)

(Billion Standard Cubic Metres and Billion Standard Cubic Feet)

<i>Field</i>	<i>Regal</i>	<i>Proven</i>		<i>Proven + Probable</i>	
	<i>Interest</i> <i>(per cent.)</i>	<i>(Bsm³)</i>	<i>(Bscf)</i>	<i>(Bsm³)</i>	<i>(Bscf)</i>
Chernihiv SV, GOL, MEX	75	8.96	316.42	18.83	664.97

Condensate Reserve Volumes attributable to the Regal Interest (75 per cent.)

(Million Standard Cubic Metres and Million Stock Tank Barrels)

<i>Field</i>	<i>Regal</i>	<i>Proven</i>		<i>Proven + Probable</i>	
	<i>Interest</i> <i>(per cent.)</i>	<i>(MMsm³)</i>	<i>(MMstb)</i>	<i>(MMsm³)</i>	<i>(MMstb)</i>
Chernihiv SV, GOL, MEX	75	1.86	11.73	4.37	27.53

Base Case

Net Present Values to Regal After Tax as of 1 July 2002

\$ Million

<i>Discount Rate (per cent.)</i>	<i>Field</i>	<i>Derived from</i>	<i>Derived from</i>	<i>Derived from</i>
		<i>Proven Reserve Volume</i> <i>(US\$ million)</i>	<i>Proven plus Probable Reserve Volume</i> <i>(US\$ million)</i>	<i>Probable Reserve Volume by Difference</i> <i>(US\$ million)</i>
0.0	SV,GOL,MEX	601	1,287	686
8.0	SV,GOL,MEX	326	591	265
10.0	SV,GOL,MEX	285	501	216
12.0	SV,GOL,MEX	250	428	178

The findings of Troy-Ikoda's evaluation are discussed below under the following sections.

1. Licencing Terms

Regal is the operator, and are joint venture partners with the Ukrainian state owned geological and drilling enterprise Chernihivnaftogazgeologija, in three licences which contain the large gas condensate accumulation which is in its early stages of development. The field is located in the Chernihiv area and is known by the name of the licences SV (No. 1306 Svyrydivske), MEX (No. 1308 Mekhediviska) and GOL (No. 1307 Golotovschinska). Each licence is officially classified as a separate field but since the majority of the mapped gas pools overlap the licence boundaries, the gas reserves in this area are referred to as being collectively located in the Chernihiv SV, MEX, GOL field. The accumulation also extends over currently unlicensed areas.

The licences are exploration licences valid for 5 years during which time the reserves must be calculated and a plan of development prepared for the field. The plan of development is then submitted with an application for conversion of the licence to a production licence of 20 years duration.

Regal has reported that under the terms of the agreement with Chernihivnaftogazgeologija they are responsible for 100 per cent. of the costs and expenses. In return they receive 90 per cent. of the production until capital expenditures are recovered. Thereafter Regal's share of revenue is reduced to 75 per cent. Regal is responsible for the payment of its own and Chernihivnaftogazgeologija taxes and the payment of Chernihivnaftogazgeologija's share of the post tax profits.

2. Commercial Gas Fields SV, GOL, MEX

2.1 Evaluation Uncertainty

The reserves evaluation of Chernihiv SV, GOL, MEX field has inherent uncertainties due to a number of factors relating to field data. Troy-Ikoda's reservoir evaluation took the form of an audit of the McDaniel evaluation of 1 July 2000. The data supplied from Ukraine was either of poor quality such as the well logs which were in the form of scanned copies with many wells having incomplete log suites, incomplete such as well test data, or unavailable such as good quality seismic data. To allow for this lack of reliable data our evaluation determined the range of possible values for the key parameters.

Some of the specific uncertainties are as follows:

- With no reliable method to determine water saturations, a range based on the logs and industry knowledge was used for each horizon.
- Porosity logs were not available for a number of wells.
- From the determination of gas water contacts it is clear from the wells, for a given reservoir horizon, that there exists some sort of reservoir barrier between various groups of wells defining different reservoir pools. To explain these different contacts "faults" have been invoked as barriers, although there is no structural evidence that they exist and it is quite possible the lack of common contacts may be due to stratigraphic reasons. The two seismic lines made available were not of sufficient quality to identify faulting. More technical work with good quality seismic data is required to aid in the understanding of the nature and location of these reservoir barriers.
- The stratigraphic limit of reservoir sands in some areas is unknown and has been estimated.
- Determination of well deliverability was made difficult by the lack of good quality test data with only surface pressures reported in a majority of the drill stem and production tests.

On the positive side the field contains eighteen wells of which four have produced commercial gas over periods of two to four years. A large number have been flow-tested demonstrating that commercial gas can be produced. The flow rates recorded are considered to be conservative due, probably, to formation damage caused by poor historic drilling practices. Industry standard western drilling techniques should result in improved production rates.

2.2 Reservoir Description

The Chernihiv SV, MEX, GOL field is situated in the northeastern part of the Ukraine in the Poltava Oblast (Province) about 200 km east of Kiev (see Figure 1). Geologically the field is located in the prolific Dneiper Donets sedimentary basin which contains 90 per cent. of all Ukrainian gas and condensate production. The basin contains a sedimentary thickness up to 24,000m in the center from the Paleozoic through the Mesozoic and Tertiary with Quaternary cover. The sediments which make up the reservoir rock for the field are a sequence of sandstones of Lower to Middle Carboniferous age interbedded with shales and limestones. The accumulation can be described as an easterly plunging anticlinal nose, with no structural closure. It therefore requires all the reservoir sands to shale out up-dip creating the stratigraphic element to the trap.

Eleven gas bearing horizons, three in the Lower Carboniferous and the remainder in the Middle Carboniferous have been identified. The Lower Carboniferous reservoirs are labeled T-1Up, T-1Low, and T-2. These zones have a gross thickness of about 1,000 m and have only been penetrated by four wells. The Middle Carboniferous reservoirs, B-20, B-21H, B-21b+c, B-22a, B-22b, B-22c, B-22h and B-23, form the main gas bearing horizons and reach a thickness of 800 — 1,000m within the field area. Below is a review of the evaluation of each reservoir horizon.

Zone T-2

The T-2 reservoir consists of a number of gas bearing sands with a gross thickness of about 200m at an average depth of 5,964 mTVDSS. In the four wells which penetrated T-2 no gas -water contact was penetrated.

Consequently any evaluation of the size of this accumulation is speculative. Troy-Ikoda did not have access to sonic logs to determine porosity, however a small amount of core analysis data was available which was utilised to establish a reasonable porosity range. Net pay ranges vary considerably from 15m to 23m. The trapping mechanism cannot be determined but a combination of stratigraphic pinchouts and faults were assumed. Clearly without any control on sand distribution and an unknown gas-water contact significant uncertainty exists and is reflected in the range of potential gas reserves, which in the upside case could be substantial. The zone was tested in three wells with well SV-4 flowing at 80,200 sm³/d (2.8 MMscf/d) (T-1Low contributing also) with a flowing pressure of 6,181 kPa.

Zone T-1Low

By contrast to the underlying T-2 reservoir, T-1Low consists of a single sandstone with a net pay thickness in the range of 1m to 8m at a depth of 5,824 mTVDSS. As with T-2 only four wells penetrated T-1Low with no porosity logs available although again there were limited core analysis data. Reservoir sand distribution is again speculative although being a single sand, thinning trends may be more accurate to allow an estimation of stratigraphic pinchout. The horizon was tested in two wells with SV-5 flowing at a rate of 30,600 sm³/d (1.1 MMscf/d).

Zone T-1High

As with the two underlying reservoirs, T-1High was also only penetrated by the four wells. The reservoir consists of a single sand with net pay thickness ranging from 1m to 6m at a depth of 5,787 mTVDSS. The trapping mechanism is again speculative resulting in a large range of reserves. Poor flow rates have been achieved, less than 1,000 sm³/d (35.3 Mscf/d), which may be due to formation damage.

Zone B-23

The B-23 reservoir is one of the most important gas zones in the field. It has been penetrated by sixteen wells and has a large areal extent. To trap the gas the reservoir sands must shale out up-dip although not confirmed by the field wells. The up-dip limit of sand is therefore uncertain. The B-23 reservoir is at an average depth of about 5,284 mTVDSS. Net pay values range from 1 m to 17 m. The sands have reasonable porosities in the 4 per cent. to 11 per cent. range. The trap was delineated by up-dip pinchout, faults and structure. A gas-water contact can be identified for all areas except the most easterly area where a Gas Down To was used for the P90 and P50 cases. In the P10 case the larger fault bounded area was used. Horizon B-23 was tested by thirteen wells and a maximum flow rate of 188,600 sm³/d (6.7 MMscf/d) was recorded in well SV-12.

Zone B-22h

The B-22h horizon is also a major reservoir in the field. It is made up of a sequence of interbedded sands and shales which cover the whole field area. The reservoir is at a depth of 5,188 mTVDSS and has net pay thicknesses in the range of 2 m to 17m. Porosities tend to be low in the 4 per cent. to 7 per cent. range. As with B-23 trapping is a combination of faulting pinchout and structural closure. The

reservoir horizon has a number of different gas-water contact's and separate pools have been defined by reservoir barriers (faults). This is clearly demonstrated by well SV-4 which is a structurally high well and yet is wet. Eleven wells have been flow tested with a maximum gas rate of 85,000 sm³/d (3.0 MMscf/d) in well SV-10.

Zone B-22c

More than any other reservoir zone B-22c reservoir sands can be interpreted as being discontinuous, being mapped as four separate pools, in the P₉₀ and P₅₀ cases and as three pools in the P₁₀ case. The sands are interpreted to shale out within the field area. The net pay ranges from 2m to 9m at an average depth of 5,166 mTVDSS. No gas-water contact could be defined and reservoir distribution was based on the stratigraphic limit of sand which were drawn as tight as reasonable to the wells for the P₉₀ case and as far from the control points as reasonable for the P₁₀ case. The B-22 reservoir sands were not tested in isolation therefore there is no reliable productivity data.

Zone B-22b

The sands which make up the B-22b reservoir are restricted to the southeast part of the field in the SV licence. The sands shale out to the northwest with faulting used to control their distribution to the west. The net pay in the wells varies from 2m to 15m at an average depth of 5,193 mTVDSS with porosities in the 4 per cent. to 8 per cent. range. No gas-water contacts have been identified so deepest gas from the wells was used to control the limit of reservoir to the east. The reservoir was tested by four wells with a maximum rate of 66,000 sm³/d (2.3 MMscf/d) from well SV-10.

Zone B-22a

As with the underlying B-22b, B-22a has a limited distribution. The reservoir sands are restricted to the east portion of the field shaling out to the west. The reservoir is at an average depth of 5,139 mTVDSS. The net pay thickness ranges from 2 m to 8 m with porosities varying. from 5 per cent. to 8 per cent. A Gas Down To was defined and used to limit the reservoir to the southeast. Again the reservoir was not tested in isolation and hence productivity is unknown.

Zone B-21b

The B-21h sand is also restricted to the southeast corner of the field with the sands stratigraphically controlled to the west. Net pay varies from 2 m to 14 m at an average depth 5,104 mTVDSS with porosities in the 6 per cent. to 11 per cent. range. There is no evidence of a gas -water contact therefore to guide the down-dip limit of the reservoir the Gas Down To was used. The reservoir was tested in four wells with a maximum gas rate of 173,100 sm³/d (6.1 MMscf/d) from well SV-2.

Zone B-21b+c

Reservoir zone B-21b+c is a major reservoir in the field and is made up of two sands "b" and "c". However since "c" is only present in three wells they are considered together for net pay mapping. This horizon is present over all the field at an average depth of 4,891 mTVDSS with net pays ranging from 2m to 16m and porosities from 5 per cent. to 9 per cent. with an average at over 8 per cent. The reservoir is divided by faulting into four pools with gas-water contact controlling the down-dip extent of each accumulation. The B-21 reservoir was tested by six wells with a maximum flow rate of 210,000 sm³/d (7.4 MMscf/d).

Zone B-20

The shallowest reservoir, B-20, has a very limited areal extent with only one well in the southeast of the field, SV-7, contacting gas with the remaining wells which penetrated the sand being wet. The up-dip control on the accumulation is faulting with a Gas Down To defining the down-dip limit. The net pay in the SV-7 well is 3 m at a depth of 4,750 mTVDSS. Gas was tested at 33,200 sm³/d (1.2 MMscf/d).

**Gas Initially In Place by Reservoir Horizon in SV, GOL and MEX,
(Billion Standard Cubic Metres)**

<i>Reservoir Horizon</i>	<i>Proven plus</i>	
	<i>Proven (Bsm³)</i>	<i>Probable (Bsm³)</i>
B-20	0.12	0.23
B-21b+c	2.94	4.31
B-21h	2.16	3.19
B-22a	0.94	1.67
B-22b	0.91	1.54
B-22c	0.79	1.46
B-22h	6.46	11.09
B-23	3.56	5.91
T-1 High	0.56	1.20
T-1 Low	0.62	1.09
T-2	2.13	8.29
Field Total	<u>21.18</u>	<u>39.98</u>

**Gas Initially In Place by Reservoir Horizon in SV, GOL and MEX,
(Billion Standard Cubic Feet)**

<i>Reservoir Horizon</i>	<i>Proven plus</i>	
	<i>Proven (Bscf)</i>	<i>Probable (Bscf)</i>
B-20	4.35	8.05
B-21b+c	103.89	152.02
B-21h	76.26	112.48
B-22a	33.09	59.04
B-22b	32.07	54.38
B-22c	27.48	51.69
B-22h	228.19	391.51
B-23	125.73	208.87
T-1 High	19.75	42.48
T-1 Low	21.84	38.55
T-2	75.78	292.67
Field Total	<u>747.78</u>	<u>1,411.74</u>

3. Reserves and Production Forecast

Production forecasts have been prepared for all horizons except B-20 due to the small reserves estimated in this horizon. The deliverability of new wells has been estimated using available test data and core permeability and forecasts constructed using our estimate of GIIP and reserves. Production for 2001 and first half 2002 was not available to Troy-Ikoda and an estimate based on 2000 production was used.

With no significant production, estimates of the remaining reserves are based on a volumetric method with a range of recovery factors input as a probabilistic distribution. The range of recovery factors reflects the undeveloped nature of the reservoir and the inherent uncertainty in drainage. Reserves for the horizons have been added arithmetically rather than probabilistically due to the inherent dependency of the volumetric assumptions.

Gross Gas Reserves (100 per cent.) per Reservoir Horizon in SV, GOL and MEX
(Billion Standard Cubic Metres)

<i>Reservoir Horizon</i>	<i>Proven plus</i>	
	<i>Proven</i> (Bsm ³)	<i>Probable</i> (Bsm ³)
B-20	0.00	0.00
B-21b+c	1.65	2.62
B-21h	1.45	2.13
B-22a	0.66	1.25
B-22b	0.63	1.15
B-22c	0.54	1.08
B-22h	4.55	7.72
B-23	2.48	4.44
T-1 High	0.00	0.62
T-1 Low	0.00	0.69
T-2	0.00	3.40
Field Total	<u>11.95</u>	<u>25.10</u>

Gross Gas Reserves (100 per cent.) per Reservoir Horizon in SV, GOL and MEX
(Billion Standard Cubic Feet)

<i>Reservoir Horizon</i>	<i>Proven Plus</i>	
	<i>Proven</i> (Bscf)	<i>Probable</i> (Bscf)
B-20	0.00	0.00
B-21b+c	58.29	92.52
B-21h	51.21	75.22
B-22a	23.21	44.14
B-22b	22.25	40.61
B-22c	19.07	38.14
B-22h	160.68	272.63
B-23	87.58	156.80
T-1 High	0.00	21.90
T-1 Low	0.00	24.36
T-2	0.00	120.07
Field Total	<u>422.01</u>	<u>886.39</u>

Gross Condensate Reserves (100 per cent.) per Reservoir Horizon in SV, GOL and MEX
(Million Standard Cubic Metres)

<i>Reservoir Horizon</i>	<i>Proven plus</i>	
	<i>(MMsm³)</i> (Bscf)	<i>Probable</i> (MMsm ³)
B-20	0.00	0.00
B-21b+c	0.29	0.87
B-21h	0.27	0.44
B-22a	0.21	0.38
B-22b	0.16	0.29
B-22c	0.15	0.38
B-22h	1.27	3.21
B-23	0.15	0.26
Field Total	<u>2.49</u>	<u>5.84</u>

**Gross Condensate Reserves (100 per cent.) per Reservoir Horizon in SV, GOL and MEX
(Million Stock Barrels)**

<i>Reservoir Horizon</i>	<i>Proven plus</i>	
	<i>Proven (MMstb)</i>	<i>Probable (MMstb)</i>
B-20	0.00	0.00
B-21b+c	1.82	5.50
B-21h	1.70	2.78
B-22a	1.29	2.40
B-22b	0.98	1.81
B-22c	0.92	2.41
B-22h	7.99	20.19
B-23	0.93	1.62
Field Total	<u>15.63</u>	<u>36.71</u>

4. Costs and Commercial Assumptions

We have reviewed the development plan that Regal is proposing for the gas fields in light of our eight years experience in the Ukraine and the former Soviet Union. Where appropriate, we have modified the plan prior to undertaking our economic analysis. The most significant cost is for the drilling of the production wells. We have verified that Regal's drilling costs per well are reasonable but have adopted a more conservative drilling program utilising four rigs simultaneously.

4.1 Commercial Assumptions

For the first year of operations it is planned to sell the gas into the domestic Ukrainian market at approximately \$60 per Msm³, there after the gas will be exported to European countries where gas prices are typically \$100 per Msm³. It is reported that a major Gazprom operated pipeline transits close to the field on the route to Eastern Europe. The Pipeline transit gas fee is reported to be \$10 per Msm³. Gas prices are increased at 2 per cent. per annum. NGL will be sold on the local Ukrainian market at \$173 per tonne.

4.2 Development Outline and Costs

The fields will be developed by drilling additional wells using current western practises and westernised rigs from Eastern Europe. Although increasing the cost per well, this is expected to considerably decrease drilling time for each well and will result in less formation damage in the wells, hence increasing the production per well and will accelerate reserves recovery. Requiring fewer wells than would be the case with the current drilling practises. The facilities will be constructed using a series of gas treatment trains each capable of handling approximately 1,415 Msm³ per day. Regal is planning to minimise the capital outlay by leasing these gas treatment plants. Regal reports it has obtained a quotation from an independent processing and development group, to design, engineer, construct, commission and operate such a facility for \$200,000 per month. An additional \$5.00 per Msm³ has been allowed to cover miscellaneous operating costs. The current NGL treatment costs at the UkrNafta plant of \$9.00 per tonne have been assumed to continue once the new facilities are in place. As it is Regal's intention to replace the current UkrNafta gas plant within one year with the new leased plant, the life expectancy of the UkrNafta plant has not been considered.

Additional costs of initially \$1.4 million per annum are included to cover administrative costs.

Funds are also budgeted to construct an office/camp complex, run a seismic survey, install condensate handling facilities and at a later date, install gas compression facilities.

5. Net Present Values

5.1 Base Price Forecast

Reserves are based on cumulative production to the economic limit based on the current development plan for the proven and proven plus probable cases. The NPV calculations are based on tax rates supplied by BDO Stoy Hayward ("BDO"). BDO have advised us that profits arising to Regal under the joint venture are subject to Ukrainian tax at the rate of 15 per cent. under current law. There may be an additional Ukrainian tax to pay of 15 per cent. when Regal's share of these profits are repatriated from the Ukraine. In addition, UK tax will arise on any profits repatriated to the UK at 30 per cent., less a credit for foreign taxes already paid. Thus, it is likely that profits will have suffered tax at 30 per cent. by the time they are available for distribution to shareholders and this tax rate has been assumed for all economic analysis.

Regal net share, money of the day, effective 1 July 2002

<i>Case</i>	<i>Net Cash Flow</i> (\$ million)	<i>NPV @ 8 per cent.</i> (\$ million)	<i>NPV @ 10 per cent.</i> (\$ million)	<i>NPV @ 12 per cent.</i> (\$ million)	<i>Gas Reserves</i> (Bsm ³)	<i>NGL Reserves</i> (MMtonnes)
Proven	601	326	285	250	8.96	1.31
Proven Plus Probable	1,287	591	501	428	18.83	3.06

6. Sensitivities

A gas price sensitivity of plus and minus 20 per cent. was applied to the exported gas. Below are the Regal net share values, Money of the Day as at 1 July 2002.

<i>Case</i>	<i>Net Cash Flow</i> (\$ million)	<i>NPV @ 8 per cent.</i> (\$ million)	<i>NPV @ 10 per cent.</i> (\$ million)	<i>NPV @ 12 per cent.</i> (\$ million)	<i>Gas Reserves</i> (Bsm ³)	<i>NGL Reserves</i> (MMtonnes)
Base +20 per cent.	1,581	731	621	532	18.83	3.06
Base -20 per cent.	956	434	367	313	18.83	3.06

7. Qualifications

Troy-Ikoda is an independent consultancy specialising in petroleum reservoir evaluation and economical analysis. Except for the provision of professional services on a fee basis, Troy-Ikoda does not have a commercial arrangement with any other person or company involved in the interests that are the subject of this report. The evaluation has been supervised by Mr. F. Boundy, Director of Troy-Ikoda.

Mr. Boundy has eleven years of petroleum engineering experience. He is a director of Troy-Ikoda and a member of the London Board of the Society of Petroleum Engineers. Other Troy-Ikoda employees involved in this work hold at least a Honours degree in geology, geophysics, petroleum engineering or a related subject and have at least five years' relevant experience in the practice of geology, geophysics or petroleum engineering.

8. Basis of Opinion

The evaluation presented in this report reflects our informed judgement based on accepted standards of professional investigation, but is subject to generally recognised uncertainties associated with the interpretation of geological, geophysical and engineering data. The evaluation has been conducted within our understanding of petroleum legislation, taxation and other regulations that currently apply to these interests. However, Troy-Ikoda is not in a position to attest to the property title, financial interest relationships or encumbrances related to the property.

It should be understood that any evaluation, particularly one involving exploration and future petroleum developments, may be subject to significant variations over short periods of time as new information becomes available.

Yours faithfully
Troy-Ikoda Limited

Francis Boundy
Director

Glossary

\$	United States Dollars
B	billion
Bscf	billion standard cubic feet
Bsm ³	billion standard cubic metres
condensate	Hydrocarbon produced with gas which exists as gas at reservoir conditions and condenses out to a liquid when produced as result of a reduction in pressure and temperature
GDT	Gas Down To
GIIP	Gas Initially In Place
GWC	Gas Water Contact
km	kilometres
kPa	kilopascals
m	metres
M	thousand
MM	million
MMscf/d	million standard cubic feet per day
MMsm ³	million standard cubic metres
Msm ³	thousand standard cubic metres
NGL	Natural Gas Liquids
Petroleum	deposits of oil and/or gas
Probable	probable reserves of petroleum are those unproved reserves which analysis of geological and engineering data suggest are more likely than not to be recoverable
Proved	proved reserves of petroleum are estimated quantities that geological and engineering data demonstrate with reasonable certainty to be recoverable in the future from known reservoirs, under current economic conditions and operating methods
sm ³ /d	standard cubic metres per day
scf	standard cubic feet
scf/d	standard cubic feet per day
TVDSS	true vertical depth sub-sea

Conversion Factors

Metre = 3.28084 feet

Cubic Metre = 35.31448 cubic feet

Cubic Metre = 6.290495 Barrels

APPENDIX 1

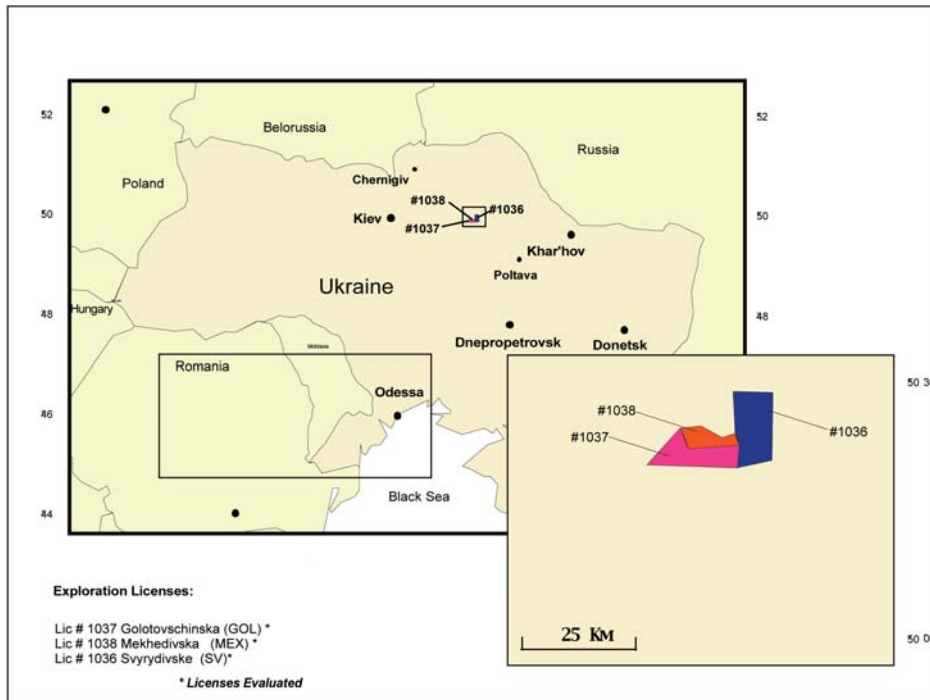


Figure 1 – Regional Location Map – Ukraine

APPENDIX 2

Table 1 – Annual Sales Gas Forecast

<i>Year</i>	<i>Proven Sales Gas (MMsm³/d)</i>	<i>Proven and Probable Sales Gas (MMsm³/d)</i>
2002	0.42	0.52
2003	2.03	2.56
2004	3.34	3.72
2005	3.31	4.21
2006	3.04	4.79
2007	2.61	4.76
2008	2.28	4.86
2009	2.01	5.00
2010	1.79	5.36
2011	1.60	5.05
2012	1.46	3.90
2013	1.33	3.11
2014	1.23	2.59
2015	1.13	2.22
2016	1.06	1.95
2017	0.95	1.74
2018	0.80	1.59
2019	0.63	1.46
2020	0.60	1.37
2021	0.57	1.29
2022	0.45	1.24
2023	0.23	1.03
2024		0.84
2025		0.71
2026		0.69
2027		0.66
2028		0.53
2029		0.47
2030		0.43
2031		0.19

APPENDIX 3

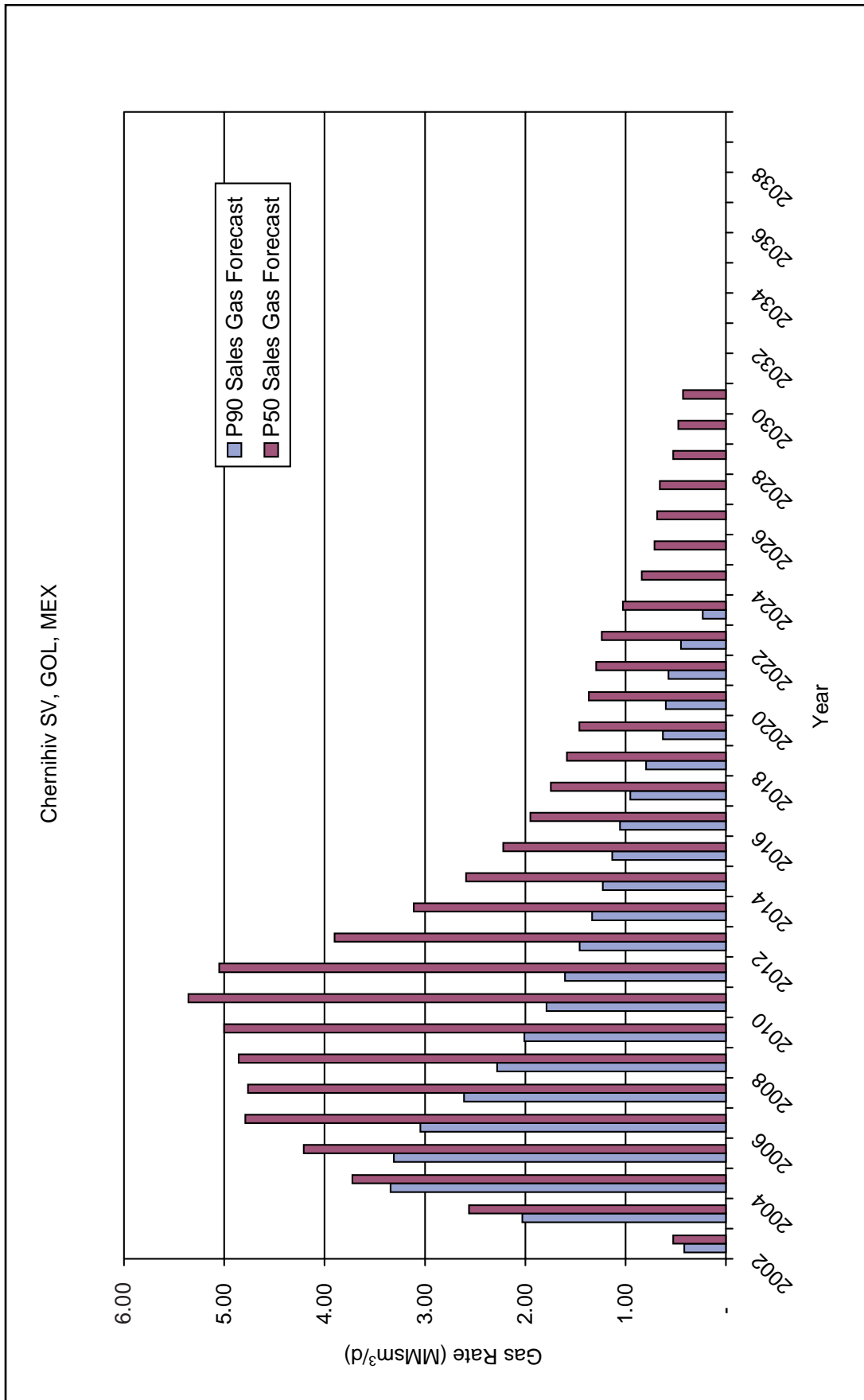


Figure 2 – Chernihiv SV, GOL, MEX Production Forecast

PART IV

Accountants' Reports

A: Regal Petroleum plc



BDO Stoy Hayward
Chartered Accountants

8 Baker Street
London W1U 3LL

The Directors
Regal Petroleum plc
7th Floor
Hillgate House
26 Old Bailey
London
EC4M 7HW

The Directors
Evolution Beeson Gregory Limited
The Registry
Royal Mint Court
London
EC3N 4LB

20 September 2002

Dear Sirs

Regal Petroleum plc ("the Company")

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 20 September 2002 of the Company ("the Admission Document").

The Company was incorporated as Hillgate (324) Limited on 17 June 2002 and changed its name to Regal Petroleum Limited on 7 August 2002. On 19 September 2002, the Company changed its name to Regal Petroleum plc and re-registered as a public limited company.

Since incorporation, the Company has not traded, nor has it received any income, incurred any expenses or paid any dividends. Consequently no profit and loss account is presented.

On 16 August 2002, the Company incorporated a subsidiary, Regal Petroleum (Jersey) Limited, a company incorporated in Jersey. Together, the Company and Regal Petroleum (Jersey) Limited are referred to as "the Group". Since incorporation, Regal Petroleum (Jersey) Limited has not traded, nor has it received any income, incurred any expenses or paid any dividends.

Basis of preparation

The financial information set out below is based on the balance sheet of the Company as at 31 July 2002 ("the Balance Sheet") to which no adjustments were considered necessary.

Responsibility

The Balance Sheet is the responsibility of the directors of the Company ("the Directors") and has been approved by them.

The Directors are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the Balance Sheet, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the Balance Sheet underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Company as at 31 July 2002.

Consent

We consent to the inclusion in the Admission Document of this report and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Balance sheet as at 31 July 2002

	<i>As at</i> <i>31 July</i> <i>2002</i> £
Current assets	
Debtors – called up share capital not paid	1
Net assets	<u>1</u>
Share capital and reserves	
Called up share capital	1
Shareholders' funds – equity	<u>1</u>

Financial Information

Accounting policies

Basis of preparation

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards.

Share capital

The Company was incorporated with authorised share capital of £1,000, being 1,000 ordinary shares of £1 each, of which one share was issued.

On 19 September 2002, the existing ordinary shares of £1 were sub-divided into 20 ordinary shares of 5 pence each and the authorised share capital was increased to £4,000,000 by the creation of an additional 79,980,000 shares of 5 pence each.

On 19 September 2002, the entire issued share capital of Regal Petroleum Corporation Limited was acquired by Regal Petroleum (Jersey) Limited. As consideration for this transaction, 39,999,980 ordinary shares of 5 pence each in the Company were issued to the shareholders of Regal Petroleum Corporation Limited. As a result of these transactions, Regal Petroleum Corporation Limited became a wholly owned directly held subsidiary of Regal Petroleum (Jersey) Limited and a wholly owned indirectly held subsidiary of the Company. These transactions also gave rise to an inter-company loan of £2,000,000 owed by Regal Petroleum (Jersey) Limited to the Company.

On 19 September 2002, pursuant to resolutions of the boards of both companies, this loan was capitalised as part of the Company's investment in Regal Petroleum (Jersey) Limited.

On 19 September 2002, the trustee of the Regal Petroleum plc Employee Benefit Trust subscribed for 650,000 ordinary shares of 5 pence each, at par.

Ultimate controlling party

As at the date of the Admission Document, the ultimate controlling party is Vasile Frank Timis.

Post balance sheet events

On 16 August 2002, the Company incorporated a subsidiary company, Regal Petroleum (Jersey) Limited.

On 11 September 2002, the Company entered into an agreement to borrow up to £240,000 from Pericles Investments Limited and the full amount of the facility was drawn down. The loan is repayable in full on 9 October 2002.

Yours faithfully

BDO Stoy Hayward
Chartered Accountants

B: Regal Petroleum Corporation Limited



BDO Stoy Hayward
Chartered Accountants

8 Baker Street
London W1U 3LL

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Regal Petroleum plc
7th Floor
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26 Old Bailey
London EC4M 7HW

The Directors
Evolution Beeson Gregory Limited
The Registry
Regal Mint Court
London EC3N 4LB

20 September 2002

Dear Sirs

Regal Petroleum Corporation Limited (“Regal Jersey”)

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 20 September 2002 of Regal Petroleum plc (“the Admission Document”).

Regal Jersey was incorporated as Gabriel Gold Limited on 19 November 1996 and changed its name to Regal Petroleum Corporation Limited on 14 January 1998.

Basis of preparation

The financial information is based on the audited consolidated financial statements of Regal Jersey for the three years and six months ended 30 June 2002 (“the Relevant Period”) to which no adjustments were considered necessary.

The audited financial statements were drawn up in pounds sterling. Because the main functional currency in which the Group operates has been, and will in the future be, United States dollars, the financial information set out below has been translated from pounds sterling to the US dollar at the rate of exchange ruling on 30 June 2002, being US\$1.5328:£1.

Bowker Orford, Chartered Accountants and Registered Auditors, 15-19 Cavendish Square, London W1G 0DD, were the auditors to Regal Jersey in each of the three years ended 31 December 2001. We have audited Regal Jersey’s interim accounts for the six months ended 30 June 2002. Each of the audit reports throughout the Relevant Period was unqualified although they did contain a paragraph relating to a fundamental uncertainty concerning Regal Jersey’s ability to continue as a going concern. However, the audit opinion was not qualified in this regard.

Responsibility

Such financial statements are the responsibility of the directors of Regal Jersey who approved their issue.

The directors of Regal Petroleum plc are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by Bowker Orford and ourselves who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

In forming our opinion, we had regard to the uncertainty over going concern referred to under "Basis of preparation" in the Accounting policies section below. As noted therein, the financial information has been prepared on the going concern basis assuming that the placing of shares by Regal Petroleum plc is successful. If the placing of shares is not successful, Regal Jersey will have to seek alternative sources of funding. Our opinion is not qualified in this regard.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of Regal Jersey as at the dates stated and of its losses for the Relevant Period.

Consent

We consent to the inclusion in the Admission Document of this report and accept responsibility for this report for the purposes of paragraph 45(2)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Financial Information

Accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information:

Accounting convention

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards and the Statement of Recommended Practice of the Oil Industry Accounting Committee, "Accounting for Oil and Gas Explorations, Development, Production and Decommissioning Activities".

Basis of preparation

The financial information has been prepared on the going concern basis assuming that the placing of shares is successful. If the placing of shares is not successful, Regal Jersey will have to seek alternative sources of funding.

Basis of consolidation

The financial information consolidates the financial information of Regal Jersey and all its subsidiary undertakings throughout the Relevant Period. The consolidated profit and loss account includes the results of all subsidiary undertakings for the period from the date of their acquisition. Turnover and profits arising on trading between group companies are excluded.

Production Sharing Agreement

The Group has a production sharing agreement with ChernihivNaftoGazgeologija, a Ukrainian state-owned drilling company. In accordance with Financial Reporting Standard 9 “Associates and Joint Ventures” (FRS 9), this is considered to be a “Joint Arrangement that is not an entity”. Accordingly, the Group accounts for its own assets, liabilities and cash flows in accordance with the terms of the production sharing agreement.

Deferred Exploration Costs

The Group uses the full cost method of accounting for project development operations. Deferred exploration and development costs include costs of exploring for and developing oil and gas reserves, which include acquisition costs, geological and geophysical costs, costs of drilling, construction of well head installations and pipelines and an appropriate share of overheads. The capitalised costs are accumulated in one or more full cost pools as determined from time to time by the nature and scope of the Group’s operations.

Decommissioning costs

Where there is a material liability for the removal of production facilities and site restoration at the end of the production life for a field, the Group recognises the provision under the basis set out in Financial Reporting Standard 12 “Provisions, Contingent Liabilities and Contingent Assets” (FRS 12).

Tangible fixed assets and depreciation

Each pool of gas well development costs is amortised using a unit of production basis once commercial production has commenced. The aggregate amount of the cost of the gas well and plant is carried forward in each pool and is stated at not more than the assessed value of commercially recoverable reserves in that pool.

Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

Fixtures, fittings and equipment	– 25 per cent. straight line
Motor vehicles	– 25 per cent. straight line
Oil and gas reserves	– Depreciated on a unit of production basis

Impairment policy

An impairment test is carried out by the Directors if events or changes in circumstances indicate that the net book amount of expenditure within each cost pool, less any provisions for decommissioning costs and deferred production or revenue-related taxes, may not be recoverable from the anticipated future net revenue from the oil and gas reserves attributable to the Group’s interest in that pool. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realisable value and value in use, the fixed asset will be written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows. Such tests are carried out on a pool-by-pool basis.

Deferred taxation

Years ended 31 December 1999, 2000 and 2001

Under the basis set out in SSAP 15, provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to materialise.

Period ended 30 June 2002

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes on a full provision basis in accordance with Financial Reporting Standard 19 “Deferred Taxation”. Deferred tax balances are not discounted. The adoption of Financial Reporting Standard 19 has not had a material effect on the financial performance of the group for the current or prior period.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets (including equity investments), they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

Where the Group operates in countries where the trade of the foreign subsidiary undertaking is more dependent on the economic environment of the investing group undertaking, the financial results are recorded in the investing undertaking's own currency by applying the temporal method as described in the Statement of Standard Accounting Practice (SSAP 20). The financial statements are then translated into the reporting currency using the closing rate method. The exchange differences arising as a result of retranslation of the financial statements at the closing rate are taken directly to reserves.

Consolidated profit and loss accounts

	Notes	<i>Six months ended</i>			
		<i>Year ended 31 December</i>			<i>30 June</i>
		<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Turnover	1,2	—	1,395	—	—
Cost of sales		—	(1,188)	—	—
Gross profit		—	207	—	—
Administrative expenses		(1,240)	(946)	(829)	(829)
Operating loss	3	(1,240)	(739)	(829)	(829)
Interest receivable	6	8	1	—	—
Interest payable and similar charges	6	(34)	(138)	(178)	(180)
Loss on ordinary activities before taxation		(1,266)	(876)	(1,007)	(1,009)
Tax on loss from ordinary activities	7	(2)	—	—	—
Loss on ordinary activities after taxation and retained for the period	16	<u>(1,268)</u>	<u>(876)</u>	<u>(1,007)</u>	<u>(1,009)</u>
Basic loss per share	8	<u>(\$126.8)</u>	<u>(\$87.6)</u>	<u>(\$100.7)</u>	<u>(\$100.9)</u>

All amounts relate to continuing activities.

Consolidated statement of total recognised gains and losses

	<i>Notes</i>	<i>Year ended 31 December</i>			<i>Period ended</i>
		<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>30 June</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>2002</i>
					<i>\$'000</i>
Loss for the financial year	16	(1,268)	(876)	(1,007)	(1,009)
Exchange differences	16	<u>18</u>	<u>44</u>	<u>23</u>	<u>(54)</u>
Total recognised losses relating to the period		<u>(1,250)</u>	<u>(832)</u>	<u>(984)</u>	<u>(1,063)</u>

Consolidated balance sheets

	Notes	As at 31 December			As at 30 June
		1999 \$'000	2000 \$'000	2001 \$'000	2002 \$'000
Fixed assets					
Tangible assets	9	<u>661</u>	<u>1,249</u>	<u>2,586</u>	<u>3,458</u>
Current assets					
Debtors	10	18	66	325	450
Cash at bank and in hand		<u>535</u>	<u>18</u>	<u>98</u>	<u>161</u>
		553	84	423	611
Creditors: amounts falling due within one year	11	<u>(582)</u>	<u>(389)</u>	<u>(1,943)</u>	<u>(1,979)</u>
Net current liabilities		<u>(29)</u>	<u>(305)</u>	<u>(1,520)</u>	<u>(1,368)</u>
Total assets less current liabilities		632	944	1,066	2,090
Provisions for liabilities and charges	12	<u>—</u>	<u>—</u>	<u>—</u>	<u>(100)</u>
Net assets		<u><u>632</u></u>	<u><u>944</u></u>	<u><u>1,066</u></u>	<u><u>1,990</u></u>
Capital and reserves					
Called up share capital	14	15	15	15	15
Capital contributions	15	2,486	3,630	4,736	6,723
Profit and loss account deficit	16	<u>(1,869)</u>	<u>(2,701)</u>	<u>(3,685)</u>	<u>(4,748)</u>
Shareholders' funds – equity		<u><u>632</u></u>	<u><u>944</u></u>	<u><u>1,066</u></u>	<u><u>1,990</u></u>

Consolidated cash flow statements

	Notes	<i>Six months ended</i>			
		<i>Year ended 31 December</i>			<i>30 June</i>
		<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Net cash outflow from operating activities	18	(1,124)	(638)	(899)	(792)
Returns on investments and servicing of finance					
Interest received		8	1	—	—
Interest paid		(34)	(138)	—	(180)
Net cash outflow from returns on investments and servicing of finance		(26)	(137)	—	(180)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(673)	(509)	(1,314)	(1,000)
Cash outflow before financing		(1,823)	(1,284)	(2,213)	(1,972)
Financing					
Issue of ordinary share capital		15	—	—	—
Proceeds from loan		—	—	1,237	98
Repayment of unsecured convertible debt		(264)	(340)	—	—
Repayment of loan		—	—	—	(157)
Capital contributions		2,486	1,081	1,077	2,086
Net cash inflow from financing		2,237	741	2,314	2,027
Increase/(decrease) in cash for the year	20	414	(543)	101	55

Notes to the consolidated financial information

1. Turnover

Turnover represents amounts invoiced in respect of sales of oil and gas exclusive of indirect taxes and excise duties.

2. Turnover, loss and net assets

Turnover, loss before tax and net assets relate to the Group's principal activity of selling natural gas and is primarily carried out within the Ukraine.

3. Operating loss

This is arrived at after charging:

	<i>Year ended 31 December</i>			<i>Six months ended</i>
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>30 June</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>2002</i>
Depreciation	12	13	13	6
Auditors' remuneration – audit services	5	28	28	38
– non-audit services	—	—	—	47
Exchange differences	12	4	18	35
	<u>12</u>	<u>4</u>	<u>18</u>	<u>35</u>

4. Employees

The average number of employees during each period, including directors, was:

	<i>Year ended 31 December</i>			<i>Six months ended</i>
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>30 June</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>
Kiev	7	8	7	5
Chernihiv	—	—	4	8
International	—	—	—	3
	<u>7</u>	<u>8</u>	<u>11</u>	<u>16</u>

Staff costs for all employees, including directors, consist of:

	<i>Year ended 31 December</i>			<i>Six months ended</i>
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>30 June</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>2002</i>
Wages and salaries	72	134	219	80
Social security costs	—	—	—	10
Pension costs	—	1	1	—
	<u>72</u>	<u>135</u>	<u>220</u>	<u>90</u>

5. Directors' emoluments

There were no directors' emoluments in each period.

6. Interest receivable and payable

	<i>Year ended 31 December</i>			<i>Six months ended</i>
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>30 June</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>2002</i>
				<i>\$'000</i>
Interest receivable				
Bank interest	8	1	—	—
	<u>8</u>	<u>1</u>	<u>—</u>	<u>—</u>
Interest payable				
On loans and overdrafts	34	138	178	180
	<u>34</u>	<u>138</u>	<u>178</u>	<u>180</u>

7. Taxation on loss from ordinary activities

	<i>Year ended 31 December</i>			<i>Six months ended</i>
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>30 June</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>2002</i>
				<i>\$'000</i>
Overseas tax payable	2	—	—	—
	<u>2</u>	<u>—</u>	<u>—</u>	<u>—</u>

8. Loss per share

The loss per ordinary share, calculated in accordance with FRS14, is based upon the loss on ordinary activities after taxation and the weighted average number of shares in issue. The weighted average number of shares in issue during the period was:

	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
Weighted average number of shares in issue	10,000	10,000	10,000	10,000
	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>

9. Tangible assets

	<i>Fixtures, fittings and equipment</i> \$'000	<i>Motor vehicles</i> \$'000	<i>Oil and gas reserves</i> \$'000	<i>Total</i> \$'000
Cost				
As at 1 January 1999	—	—	—	—
Additions	14	34	625	673
As at 31 December 1999	14	34	625	673
Additions	—	—	509	509
Exchange difference	2	3	89	94
As at 31 December 2000	16	37	1,223	1,276
Additions	—	—	1,314	1,314
Exchange difference	1	—	35	36
As at 31 December 2001	17	37	2,572	2,626
Additions	—	—	1,100	1,100
Exchange difference	—	(2)	(221)	(223)
As at 30 June 2002	17	35	3,451	3,503
Depreciation				
As at 1 January 1999	—	—	—	—
Provided for the year	3	9	—	12
As at 31 December 1999	3	9	—	12
Provided for the year	5	8	—	13
Exchange difference	—	2	—	2
As at 31 December 2000	8	19	—	27
Provided for the year	5	8	—	13
As at 31 December 2001	13	27	—	40
Provided for the year	1	5	—	6
Exchange difference	—	(1)	—	(1)
As at 31 December 2002	14	31	—	45
Net book value				
As at 31 December 1999	11	25	625	661
As at 31 December 2000	8	18	1,223	1,249
As at 31 December 2001	4	10	2,572	2,586
As at 30 June 2002	3	4	3,451	3,458

10. Debtors

	<i>As at 31 December</i>			<i>As at 30 June</i>
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Prepayments and accrued income	18	—	—	—
Other debtors	—	66	325	450
	18	66	325	450

11. Creditors

Amounts falling due within one year

	<i>As at 31 December</i>			<i>As at</i>
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>30 June</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>2002</i>
				<i>\$'000</i>
Loans	340	—	1,337	1,278
Corporation tax	2	—	—	—
Accruals and deferred income	240	389	606	701
	<u>582</u>	<u>389</u>	<u>1,943</u>	<u>1,979</u>

The loan at 31 December 1999 was owed to Goldbelt Resources Limited. This amount bore interest at 10 per cent. per annum and was repaid in the year ended 31 December 2000.

Included within loans at 30 June 2002 is \$98,000 owed to Gregory Lee. \$6,000 interest is payable on this amount. This loan is repayable at the earliest of 30 September 2002 and funds being available post Placing. The remaining balance included in loans at 30 June 2002 relates to the unsecured loan facility as detailed below.

During the year ended 31 December 2001 an unsecured loan facility of \$1.3 million was established. The loan is repayable by 30 November 2002. Interest is payable at the rate of 30 per cent. per annum.

12. Provisions for liabilities and charges

In the period ended 30 June 2002, a provision of \$100,000 has been recognised for decommissioning costs. Decommissioning costs relate to the estimated liability for the removal of production facilities and site restoration at the end of the production life for a field. These costs are expected to be incurred between 2017 and 2022. The provision has been estimated based on current prices.

13. Deferred tax

No provision has been made for deferred taxation because of the availability of losses.

14. Share capital

	<i>As at 31 December</i>			<i>As at</i>
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>30 June</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>2002</i>
				<i>\$'000</i>
Authorised				
10,000 ordinary shares of £1 each translated at \$1.5328:£1	<u>15</u>	<u>15</u>	<u>15</u>	<u>15</u>
Allotted, called up and fully paid				
10,000 ordinary shares of £1 each translated at \$1.5328:£1	<u>15</u>	<u>15</u>	<u>15</u>	<u>15</u>

15. Capital contributions

	<i>As at 31 December</i>			<i>As at</i>
	1999	2000	2001	30 June
	\$'000	\$'000	\$'000	2002
				\$'000
Contributions in period	2,486	1,081	1,077	2,086
Exchange difference	—	63	29	(99)
Capital contributions brought forward	—	2,486	3,630	4,736
	<u>2,486</u>	<u>3,630</u>	<u>4,736</u>	<u>6,723</u>

16. Profit and loss reserve

	<i>As at 31 December</i>			<i>As at</i>
	1999	2000	2001	30 June
	\$'000	\$'000	\$'000	2002
				\$'000
Loss for the period	(1,268)	(876)	(1,007)	(1,009)
Exchange differences	18	44	23	(54)
	<u>(1,250)</u>	<u>(832)</u>	<u>(984)</u>	<u>(1,063)</u>
Profit and loss reserve brought forward	(619)	(1,869)	(2,701)	(3,685)
	<u>(1,869)</u>	<u>(2,701)</u>	<u>(3,685)</u>	<u>(4,748)</u>

17. Reconciliation of movements in shareholders' funds

	<i>Year ended 31 December</i>			<i>Six months</i>
	1999	2000	2001	ended
	\$'000	\$'000	\$'000	30 June
				2002
				\$'000
At the beginning of the year	(619)	632	944	1,066
Net proceeds of equity share issue	15	—	—	—
Capital contributions	2,486	1,144	1,106	1,987
Profit and loss reserve movement in period	<u>(1,250)</u>	<u>(832)</u>	<u>(984)</u>	<u>(1,063)</u>
At the end of the year	<u>632</u>	<u>944</u>	<u>1,066</u>	<u>1,990</u>

18. Reconciliation of operating loss to net cash flow from operating activities

	<i>Year ended 31 December</i>			<i>Six months</i>
	1999	2000	2001	ended
	\$'000	\$'000	\$'000	30 June
				2002
				\$'000
Operating loss	(1,240)	(739)	(829)	(829)
Exchange differences	12	4	18	35
Depreciation	12	13	13	6
Increase in debtors	(15)	(48)	(259)	(148)
Increase in creditors	107	132	158	144
Net cash flow from operating activities	<u>(1,124)</u>	<u>(638)</u>	<u>(899)</u>	<u>(792)</u>

19. Reconciliation of net cash flow to movement in net funds/(debt)

	<i>Year ended 31 December</i>			<i>Six months ended</i>
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>30 June</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>2002</i>
Increase/(decrease) in cash in the period	414	(543)	101	55
Cash (inflow)/outflow from (increase)/decrease in debt	264	340	(1,180)	115
Movement in net funds/(deficit) resulting from cashflows	678	(203)	(1,079)	170
Exchange differences	—	26	—	(48)
Other non cash changes	—	—	(178)	—
Movement in net funds/(debt) in the year/period	678	(177)	(1,257)	122
Net funds/(debt) at the beginning of the period	(483)	195	18	(1,239)
Net funds/(debt) at the end of the period (note 20)	195	18	(1,239)	(1,117)

20. Analysis of net debt

	<i>Cash at bank and in hand \$'000</i>	<i>Debt due within one year \$'000</i>	<i>Net Funds \$'000</i>
As at 1 January 1999	121	(604)	(483)
Cash flow	414	264	678
As at 31 December 1999	535	(340)	195
Cash flow	(543)	340	(203)
Exchange movement	26	—	26
At 31 December 2000	18	—	18
Cash flow	101	(1,180)	(1,079)
Exchange movement	(21)	21	—
Other non cash changes	—	(178)	(178)
As at 31 December 2001	98	(1,337)	(1,239)
Cash flow	55	115	170
Exchange movement	8	(56)	(48)
As at 30 June 2002	161	(1,278)	(1,117)

21. Subsidiary undertakings

The following were subsidiary undertakings at the end of each period and have been included in the consolidated financial information:

<i>Name</i>	<i>Country of Incorporation or registration</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
Regal Petroleum International Inc	Virgin Islands	100%	Oil and natural gas extraction
Regal Petroleum Ukraine Limited	Ukraine	100%	Oil and natural gas extraction

22. Financial Instruments

The Group's financial instruments during each period comprised a mixture of loans, cash at bank and various items such as debtors and creditors that arise directly from its operations. The Group does not hold any derivative financial instruments and does not trade in financial instruments. The main future risks arising from the Group's financial instruments are currency risk and liquidity risk.

Short term debtors and creditors are not treated as financial assets and liabilities respectively for disclosure purposes.

Interest rate risk

The Group has bank accounts denominated in US dollars, Australian dollars and Ukrainian Hryvnia. No interest is received on these accounts. As at 30 June 2002 the Group does not have long term borrowings, as stated in note 11.

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. The amounts represent the transactional exposures that give rise to net currency gains and losses recognised in the profit and loss account (see note 3). Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of operations.

	<i>Net foreign currency monetary asset/(liability)</i>				
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
	<i>US\$</i>	<i>UKH</i>	<i>AUS\$</i>	<i>GBP</i>	<i>CAN\$</i>
<i>Material functional currency of Group operations*</i>					
US\$					
Year ended 31 December 2000	—	(227)	5	(49)	(159)
Year ended 31 December 2001	—	129	80	(35)	(173)
Six months ended 30 June 2002	—	(24)	41	(38)	(134)

*Currency exposure for the year ended 1999 is not significant therefore not disclosed.

Liquidity risk

As regards liquidity, the Group's objective throughout each period has been that, to ensure continuity of funding. Operations to date have primarily been financed through capital contributions.

Fair values of financial instruments

There is no material difference between the book value and fair value of financial assets and liabilities.

23. Capital commitments

The Group did not have any capital commitments as at 30 June 2002.

24. Related party transactions

The Group had the use of office facilities in Vancouver, British Columbia, Canada owned by Gabriel Resources Limited, a company incorporated in Canada of which Vasile Frank Timis is chairman. Regal Jersey ceased using the office during the year ended 31 December 2000. The arrangement was informal and all rental monies remain outstanding. The amounts included in creditors at each period end are 1999: \$34,062, 2000 and 2001: \$43,078 and 2002: \$42,799.

Glenn Featherby (Finance Director) and Paul Morgan (former CEO and President) are consultants to the Group. Glenn Featherby was a shareholder of Regal Jersey at the end of all three years ended 31 December 2001 and the six months ended 30 June 2002. Paul Morgan did not have any shareholding interest in Regal Jersey in any of the periods.

During the year ended 31 December 1999, Glenn Featherby charged the Group travel and subsistence fees of \$276,028. \$Nil was charged in 2000 and 2001. During the period ended 30 June 2002, Glenn Featherby charged the Group travel and subsistence fees of \$60,993. The amount due to Glenn Featherby at 31 December 1999 was \$Nil (\$Nil in subsequent periods).

During the year ended 31 December 1999 Paul Morgan charged the Group consultancy fees of \$142,656 and travel and subsistence fees of \$73,703 (\$Nil in subsequent periods). The amount due to Paul Morgan at 31 December 1999 was \$Nil, at 31 December 2000 and 31 December 2001 \$13,964 and \$Nil at 30 June 2002.

In addition, amounts accrued at 31 December 1999 for Glenn Featherby's and Paul Morgan's consultancy fees amounted to \$66,573 (1998: \$Nil). This amount is included within creditors at 31 December 1999.

The Group has used the services of Featherby Reilly, a chartered accountancy firm based in Australia, where Glenn Featherby serves as a partner. During the periods ended 31 December 1999, 31 December 2000, 31 December 2001 and 30 June 2002, Featherby Reilly charged the Group \$23,525, \$18,266, \$Nil and \$10,993 respectively. The amounts due to Featherby Reilly at the end of each period were \$8,608, \$6,288, \$5,927 and \$16,922 respectively.

B Featherby, a close relative of Glenn Featherby, charged the Group brokerage fees of \$43,663 during the year ended 31 December 1999 (\$Nil in subsequent periods). There was no amount outstanding at the end of each period.

During the period ended 30 June 2002, Gregory Lee (Managing Director) loaned the Group \$98,000. This amount was still outstanding at the period end (see note 11).

The Group used the services of Rathbones, a solicitor firm based in Jersey, where Kiran Patel and Nicola Claire Bennett are serving as partners. Mr Patel and Ms Bennett are directors of Regal Jersey. During the six months ended 30 June 2002, Rathbones charged the Group \$8,942 in respect of general legal advice. At 30 June 2002 the Group owed Rathbones \$7,151.

25. Post balance sheet events

In July 2002, Glenn Featherby loaned the Group the sum of \$50,000. This loan was repaid on 14 August 2002.

On 9 August 2002, Vasile Frank Timis loaned \$600,000 to the Group. This amount has since been waived by Mr Timis and will be treated as a capital contribution in the balance sheet.

Gas production commenced from MEX 3 in August 2002.

On 19 September 2002, the entire issued share capital of Regal Petroleum Corporation Limited was acquired, by Regal Petroleum (Jersey) Limited. As consideration for this transaction, 39,999,980 ordinary shares of 5 pence each in Regal Petroleum plc were issued to the shareholders of Regal Petroleum Corporation Limited. As a result of these transactions, Regal Petroleum (Jersey) Limited became the company's immediate holding company and Regal Petroleum plc the company's ultimate holding company.

26. Ultimate controlling party

As at the date of the Admission Document, the ultimate controlling party is Vasile Frank Timis.

Yours faithfully

BDO Stoy Hayward
Chartered Accountants

PART V

Additional Information

1. The Company

- 1.1 The Company was incorporated and registered under the Act in England and Wales on 17 June 2002 under the name Hillgate (324) Limited as a private company limited by shares. The Company's registered number is 4462555. On 7 August 2002 the Company changed its name to Regal Petroleum Limited. On 19 September 2002 the Company changed its name to Regal Petroleum plc and was re-registered as a public limited company. The Company is the holding company of the Group.
- 1.2 The registered office of the Company is at 7th Floor, Hillgate House, 26 Old Bailey, London EC4M 7HW.

2. Share capital

- 2.1 The following changes have occurred in the share and loan capital of the Company since 17 June 2002, the date of its incorporation:

- (a) on 19 September 2002, resolutions of the Company were passed to:
- (i) amend the objects clause of the Company's memorandum of association;
 - (ii) sub-divide each existing authorised ordinary share of £1 into 20 ordinary shares of 5p each;
 - (iii) increase the authorised share capital of the Company to £4 million by the creation of an additional 79,980,000 ordinary shares of 5p each;
 - (iv) generally and unconditionally authorise the directors pursuant to section 80 of the Act to allot relevant securities (as defined in that section) up to a maximum amount of £955,277.78, such authority expiring 15 months after the date of the resolution or at the conclusion of the Company's Annual General Meeting in 2003, whichever is the earlier except that the directors may during the period make offers or arrangements which could or might require the allotment of relevant securities after the expiry of such period; and
 - (v) disapply certain pre-emption rights pursuant to Section 95 of the Act as described in paragraph 2.6 below;
 - (vi) to adopt new articles of association, subject to and with effect from Admission.
- (b) on 19 September 2002 39,999,980 ordinary shares of 5p each in the capital of the Company were, pursuant to the authorities referred to in sub-paragraphs (a)(iv) and (v) above, issued to the shareholders of Regal Jersey pursuant to the Share Exchange Agreement;

- 2.2 Following completion of the Placing, the authorised and issued share capital of the Company (of which all of the issued shares are expected to be fully paid up on or before Admission) as it is expected to be immediately following Admission is as follows:

<i>Authorised</i>		<i>Issued</i>	
<i>Number of</i>	<i>Amount</i>	<i>Number of</i>	<i>Amount</i>
<i>Ordinary Shares</i>	<i>(£)</i>	<i>Ordinary Shares</i>	<i>(£)</i>
80,000,000	4,000,000	57,316,667	2,865,833.35

- 2.3 Details of the total number of options (all granted for nil consideration) (in the case of the Unapproved Share Option Arrangements) and reversionary interests in the Trust (in the case of the Executive Options Scheme) outstanding as at 19 September 2002 (being the latest practicable date prior to the publication of this document) are as follows:

Executive Option Scheme

Date of grant

19.09.02

Number of Ordinary Shares

650,000

Unapproved Share Option Arrangements

Date of grant

19.09.02

Number of Ordinary Shares

1,250,000

2.4 Of the balance of the authorised but unissued share capital of the Company immediately after Admission amounting to 22,683,333 Ordinary Shares:

- (a) 1,250,000 Ordinary Shares will be reserved for issue under the Unapproved Share Option Arrangements;
- (b) 50,000 Ordinary Shares will be reserved for issue to Evolution Beeson Gregory pursuant to the terms of the Placing Agreement; and
- (c) 21,383,333 will remain unissued and unreserved.

2.5 Pursuant to the resolutions set out in paragraph 2.1(a) above, the Directors are generally and unconditionally authorised pursuant to section 80 of the Act to allot relevant securities (as defined in that section), such authority to be limited to the allotment of:

- (a) 39,999,980 Ordinary Shares pursuant to the Share Exchange Agreement;
- (b) 16,666,667 Ordinary Shares pursuant to the Placing;
- (c) up to 50,000 Ordinary Shares to Evolution Beeson Gregory pursuant to the terms of the Placing Agreement; and
- (d) relevant securities (other than pursuant to sub-paragraphs (a) to (c) (inclusive) above), having an aggregate nominal value equal to £955,277.78,

such authority to expire upon the earlier of the conclusion of the Annual General Meeting of the Company in 2003 and the date which is 15 months from the date of passing of the resolution, except that the Directors can during the period make offers or arrangements which could or might require the allotment of relevant securities after the expiry of such period.

2.6 Pursuant to the resolutions set out in paragraph 2.1(a) above, the Directors are empowered pursuant to section 95(1) of the Act to allot equity securities (as defined in section 94(2) of the Act) of the Company for cash pursuant to the authority of the Directors under section 80 of the Act conferred by the resolutions referred to in paragraph 2.5 above for the duration of such authority, as if the provisions of section 89(1) of the Act did not apply to such allotment provided that, with respect to allotments pursuant to paragraph 2.5(c) this power shall be limited to:

- (a) the allotment of equity securities which falls within sub-paragraphs (a) to (c) (inclusive) of paragraph 2.5 above;
- (b) the allotment of equity securities in connection with issues or offers of equity securities by way of rights or other pre-emptive offers, subject only to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or practical problems arising under the laws of any overseas territory or the requirements of any regulatory authority or body or any stock exchange in any territory; and
- (c) the allotment (other than pursuant to the power referred to in sub-paragraphs (a) to (c) (inclusive) above) of equity securities up to an aggregate nominal value equal to £143,291.67

and the Company may, prior to the expiry of such power, make any offer or agreement which requires or might require equity securities to be allotted after the expiry of such period.

- 2.7 The provisions of section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act confer on the Shareholders certain rights of pre-emption in respect of the allotment of equity securities) (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash and apply to the authorised but unissued equity share capital of the Company. These provisions are intended to be disapplied to the extent referred to in paragraph 2.6 above.
- 2.8 Save as mentioned in this paragraph 2:
- (a) no unissued share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (b) there are no shares in the capital of the Company currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived;
 - (c) there are no outstanding convertible securities issued by the Company; and
 - (d) no share capital or loan capital of the Company or any of its subsidiaries (other than intra-group issues by wholly-owned subsidiaries) is in issue and no such issue is proposed.
- 2.9 Save as disclosed in this document, no commission, discounts, brokerages or other specific terms have been granted by the Company in connection with the issue or sale of any of its share or loan capital.
- 2.10 The Ordinary Shares are in registered form and capable of being held in uncertificated form. Application has been made to CRESTCo for the Ordinary Shares to be enabled for dealings through CREST as a participating security. No temporary documents of title will be issued. It is expected that definitive share certificates will be posted to those shareholders who have requested the issue of Ordinary Shares in certificated form by 4 October 2002.
- 2.11 The Placing Price of 60 pence per Ordinary Share represents a premium of 55 pence over the nominal value of 5 pence per Ordinary Share and is payable in full on Admission under the terms of the Placing.

3. Subsidiary undertakings

The Company has the following wholly-owned subsidiaries:

<i>Name</i>	<i>Registration Number</i>	<i>Status</i>	<i>Place of incorporation</i>	<i>Interest held</i>
Regal Petroleum Corporation Limited	66866	Holding company	Jersey	100% by Regal Petroleum (Jersey) Limited
Regal Petroleum (Jersey) Limited	83838	Intermediate holding company	Jersey	100%
Regal Petroleum International Inc.	n/a	Trading	British Virgin Islands	100% by Regal Petroleum Corporation Limited
Regal Petroleum Ukraine Corporation	n/a	Trading	Ukraine	100% by Regal Petroleum Corporation Limited

4. Summary of the Memorandum and Articles of Association of the Company

4.1 *Memorandum of Association*

The Memorandum of Association of the Company provides that the principal objects of the Company are to act as a holding company and to undertake activities related to the oil and gas industry. The Company is permitted to carry on any other trade or business which can be carried on advantageously with or ancillary to the Company's main businesses or object. The objects of the Company are set out in full in clause 4 of the Memorandum of Association.

4.2 *Articles of Association*

The Articles of Association of the Company (the "Articles") which were adopted conditional on Admission by a special resolution of the Company passed on 19 September 2002 contain, *inter alia*, provisions to the following effect:

(a) *Voting rights*

Subject to the provisions of the Act and to any rights or restrictions as to voting attached to any class of shares, at any general meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative has one vote, and on a poll every member present in person or by proxy or (being a corporation) by a duly authorised representative has one vote for each share of which he is the holder;

(b) *Transfer of shares*

Save for in the case of shares which have become participating securities for the purposes of the Uncertificated Securities Regulations 2001, title to which may be transferred by means of a relevant system such as CREST without a written instrument, all transfers of shares must be effected by an instrument of transfer in writing in any usual form or in any other form approved by the Board. The instrument of transfer shall be executed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of certificated shares unless:

- (i) it is in respect of a share which is fully paid up;
- (ii) it is in respect of a share on which the Company has no lien;
- (iii) it is in respect of only one class of share;
- (iv) it is in favour of a single transferee or not more than four joint transferees;
- (v) it is duly stamped (if required); and
- (vi) it is lodged at the registered office together with the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer,

provided that the Board may not exercise such discretion in such a way as to prevent dealing from taking place on an open and proper basis.

The Board may refuse to register the transfer of an uncertificated share which is in favour of more than four persons jointly or in any other circumstances permitted by the Uncertificated Securities Regulations 2001 (subject to any relevant requirements of the London Stock Exchange).

If the Board refuses to register a transfer it must, within 2 months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee.

The registration of transfers may be suspended by the Board for any period (not exceeding 30 days) in any year.

(c) *Restrictions on transfer of certain shares.*

Unless the Board is reasonably satisfied that a transfer of Restricted Shares is a Permitted Transfer the Directors may at their discretion refuse to register any transfer of Restricted Shares prior to the first anniversary of Admission. A Permitted Transfer for the purpose of the Articles is either:

- (i) a transfer of a Restricted Share to a trustee or trustees of a trust, or a transfer of a Restricted Share by a trustee or trustees of a trust to another trustee of such trust or to the beneficial owner of the Restricted Share; or
- (ii) a transfer of a Restricted Share pursuant to an acceptance of a general offer for the share capital of the Company made in accordance with the City Code, or otherwise where such offer relates to the entire issued share capital of the Company other than shares already owned by the offeror or persons acting in concert with the offeror; or
- (iii) a transfer of a Restricted Share pursuant to a compromise or arrangement under section 425 of the Act providing for the acquisition by any person of 50 per cent. or more of the equity share capital of the Company; or
- (iv) a transfer of a Restricted Share pursuant to any scheme of reconstruction under section 110 of the Insolvency Act 1986.

Any Restricted Share the subject of a transfer which is registered by the Board prior to the first anniversary of Admission (not being a Permitted Transfer) will, upon such transfer, cease to be a Restricted Share.

(d) *Failure to disclose interests in shares*

If a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 212 of the Act and has failed in relation to any shares (“the default shares”) to give the Company the information thereby required within the prescribed period from the date of the notice, the following sanctions shall apply:

- (i) the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and
- (ii) where the default shares represent at least 0.25 per cent. in nominal value of their class:
 - (A) any dividend or other money payable in respect of the shares shall be withheld by the Company which shall not have any obligation to pay interest on it and the member shall not be entitled to elect in the case of a scrip dividend to receive shares instead of that dividend; and
 - (B) no transfer, other than an approved transfer as defined in the Articles pursuant to a takeover offer of the Company or a bona fide sale to an unconnected third party, of any shares held by the member shall be registered unless:
 - the member is not himself in default as regards supplying the information required; and
 - the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

The above sanctions shall also apply to any shares in the Company issued in respect of the default shares (whether on capitalisation, a rights issue or otherwise).

In respect of any default shares which are in uncertificated form the Board may require their holder to change them from uncertificated form into certificated form within a period specified in a written notice given to such holder and then to hold such default shares in certificated form for so long as the default subsists. Additionally, the Board may appoint any other person to take any steps in the name of such holder as may be required to change such shares from uncertificated form into certificated form.

(e) *Dividends*

Subject to the provisions of the Act and of the Articles and to any special rights attaching to any shares, the Company may by ordinary resolution declare dividends, but no such dividends shall exceed the amount recommended by the Board. All dividends shall be apportioned and paid pro rata according to the amounts paid up or credited as paid up (otherwise than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid. Interim dividends may be paid provided that they appear to the Board to be justified by the profits available for distribution and the position of the Company. Unless otherwise provided by the rights attached to any share, no dividends in respect of a share shall bear interest. The Board may, with the prior authority of an ordinary resolution of the Company, offer the holders of Ordinary Shares the right to elect to receive Ordinary Shares credited as fully paid instead of cash in respect of all or part of any dividend.

Any dividend unclaimed after a period of 12 years from its due date of payment shall (if the Board so resolves) be forfeited and cease to remain owing by the Company and shall thereafter belong to the Company absolutely.

(f) *Distribution of assets on liquidation*

Subject to any rights or restrictions attached to any class of shares, on a winding-up of the Company, the surplus of assets available for distribution shall be divided among the members in proportion to the amounts paid up on their respective shares at the commencement of the winding-up, or, if the Company is wound up by the liquidator with the sanction of an extraordinary resolution of the Company, be divided amongst the members in specie in such manner as shall be determined by the liquidator.

(g) *Changes in share capital*

The Company may alter its share capital as follows:

- (i) it may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amounts, cancel any shares which have not been taken or agreed to be taken by any person and sub-divide its shares or any of them into shares of smaller amounts;
- (ii) subject to the provisions of the Act and to any rights for the time being attached to any shares, it may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or other undistributable reserve in any manner; and
- (iii) subject to the provisions of the Act and to any rights for the time being attached to any shares it may with the sanction of a special resolution enter into any contract for the purchase of its own shares.

(h) *Variation of rights*

Subject to the provisions of the Act and of the Articles, the special rights attached to any class of share in the Company may be varied or abrogated either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and

may be so varied or abrogated whilst the Company is a going concern or while the Company is or is about to be in liquidation. The quorum for such separate general meeting of the holders of the shares of the class shall be at least two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the relevant class.

(i) *Directors' interests in contracts*

Save as provided below, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or any committee of the Board in respect of any contract, arrangement, transaction or any proposal whatsoever in which he has any material interest or duty which conflicts with the interests of the Company. A Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution at such meeting if his duty or interest arises only because the resolution relates to one of the following matters:

- (i) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (ii) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- (iii) where the Company or any of its subsidiary undertakings is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate;
- (iv) relating to another company in which he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in sections 198 to 211 of the Act) representing one per cent. or more of either any class of the equity share capital, or the voting rights, in such company;
- (v) relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (vi) concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors.

A Director may not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment as the holder of any office or place of profit with the Company or any company in which the Company is interested (including fixing or varying the terms of such appointment or its termination).

Where proposals are under consideration concerning the appointments (including fixing or varying the terms of the appointment) of two or more Directors, such proposals may be divided and a separate resolution considered in relation to each Director. In each case, each such Director (if not otherwise debarred from voting) is entitled to vote (and be counted in the quorum) in respect of each resolution except that resolution concerning his own appointment.

(j) *Directors*

The aggregate fees which the Directors shall be entitled to receive for their services in the office of director shall not exceed £200,000 per annum, or such other sum as may from time to time be determined by an ordinary resolution of the Company. Such sum (unless otherwise directed by the resolution of the Company by which it is approved) shall be divided among the Directors in such proportions and in such manner as the Board may determine or, in default of such determination, equally.

All the Directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors. If by arrangement with the Board any Director performs any special duties or services outside his ordinary duties as a Director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration which may be by a lump sum or by way of salary, commission, participation in profits or otherwise as the Board may determine.

No Director is to retire from office pursuant to section 293 of the Act by reason of the fact that he has attained the age of 70 or any other age and section 293 of the Act does not apply to the Company.

(k) *Borrowing powers*

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any of its undertakings, property, assets (present or future) and uncalled capital and, subject to the provisions of the Act, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate principal amount for the time being outstanding in respect of monies borrowed or secured by the Company and its subsidiaries (exclusive of intra-group borrowings and after deducting cash deposited) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed the greater of £20 million or an amount equal to 2.5 times the aggregate of:

- (i) the amount paid up (or credited as paid up) on the issued share capital of the Company; and
- (ii) the amount outstanding to the credit of the capital and revenue reserves of the Company and its subsidiaries (including any share premium account, capital redemption reserve fund and credit or debit balance on any other reserve) after adding thereto or deducting therefrom any credit or debit balance on the profit and loss account

all as shown in the then latest published audited consolidated balance sheet of the Company and its subsidiaries but after adjustments as set out in the Articles.

5. Directors

5.1 The Directors of the Company and their respective functions are set out in Part I of this document.

5.2 Details of any directorship that is or was in the last 5 years held by each of the Directors, and any partnership of which each of the Directors is or was in the last 5 years a member in addition to their directorships of the Company and its subsidiary undertakings are set out below:

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Vasile Frank Timis	Gabriel Resources Limited European Goldfields Limited Epic Holdings Limited	Pneumatic International N.L. Riverdale Mining Limited
Gregory Jonathan Lee	Ledgar Enterprises Pty. Ltd. Gold Homes Plc	Lee-Barnard Engineering & Management Plc
Glenn Robert Featherby	Featherby Reilly (partnership) Featherby Investments Pty. Ltd. Fasfur Pty. Ltd. Petroleum Investments Pty. Ltd. Quek Kai Tee Holdings Limited Quek Kai Tee Holdings Pty. Ltd.	Ausgem International Limited Gabriel Resources Limited

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Frank David Wheatley	Gabriel Resources Limited Lithic Resources Limited Constellation Copper Corporation	Elkhorn Gold Mining Corporation
William Henry Humphries	Landore Resources Limited HPD Exploration PLC Ladybank Holdings Pty Ltd Tolo Pty. Ltd. Bolwarra Pty. Ltd.	Brancote Holdings PLC

5.3 Save as disclosed below, at the date of this document none of the Directors named in this document:

- (a) has any unspent convictions in relation to indictable offences;
- (b) has been declared bankrupt or has entered into an individual voluntary arrangement;
- (c) was a director of any company at the time of or within the 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors with which such company was concerned;
- (d) was a partner in a partnership at the time of or within the 12 months preceding a compulsory liquidation, administration or partnership voluntary arrangement of such partnership;
- (e) has had his assets the subject of any receivership or was a partner in a partnership at the time of or within the 12 months preceding any assets thereof being the subject of a receivership; or
- (f) has been the subject of any public criticisms by any statutory or regulatory authority (including any recognised professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

5.4 Prior to his involvement with the Group and Gabriel Resources Limited, Mr Timis was convicted of a number of offences under Australian law, including three narcotic related offences. The first, in 1982, related to possession of marijuana. In 1990, he was convicted of possession of heroin with intent to supply and fined Aus \$10,000 and in 1994 he received a further conviction for possession of heroin with intent to supply and was fined Aus \$17,000. He has also had a number of convictions for minor offences, the majority of which were traffic-related offences.

5.5 Prior to his involvement with the Group and Brancote Holdings PLC, Mr Humphries was a director of W. H. Humphries Nominees Limited when it went into liquidation in 1991. He was a director of Urntarli Pty. Ltd. which was placed in receivership in 1991 and was finally dissolved in 1994. He was a director of Bolwarra Pty. Ltd. when it entered into a deed of arrangement with creditors in 1994 and of Tolo Pty. Ltd. when it went into voluntary administration in 1994.

5.6 Mr Lee was a director of Lee-Barnard Engineering & Management Plc when it went into voluntary liquidation in 1993.

5.7 Mr Featherby was a director of Ausgem International Limited ("Ausgem") until 11 September 2000. A liquidator was appointed to Ausgem by the court on 1 May 2001. Ausgem remains in liquidation.

6. Directors' and other interests

6.1 The interests of the Directors (including the interests of persons connected with them which would, if the connected person were a Director, be required to be disclosed, and the existence of which is known to, or could with reasonable diligence be ascertained by that Director within the meaning of section 346 of the Act) in the issued share capital of the Company which are required to be notified by each Director to the Company pursuant to section 324 or 328 of the Act or are required to be entered in the register of Directors' interests referred to in section 325 of the Act (all of which, save where stated otherwise in the notes below, are beneficial interests) as at the date of this document and as they are expected to be prior to and immediately following Admission are/will be as follows:

<i>Director</i>	<i>Number of Ordinary Shares (as at the date of this document)</i>	<i>Percentage of issued Ordinary Shares (as at the date of this document)</i>	<i>Number of Ordinary Shares (as at the date of Admission)</i>	<i>Percentage of issued Ordinary Shares (at the date of Admission)</i>
Vasile Frank Timis ⁽¹⁾⁽²⁾	8,868,387	21.82	8,868,387	15.47
Gregory Jonathan Lee ⁽¹⁾	1,000,000	2.46	1,000,000	1.74
Glenn Robert Featherby ⁽³⁾	2,074,000	5.10	2,074,000	3.62
Frank David Wheatley	100,000	0.25	100,000	0.17
William Henry Humphries	200,000	0.49	200,000	0.35

1 Vasile Frank Timis and Gregory Jonathan Lee are beneficiaries of a trust that holds 1,000,000 Ordinary Shares. Gregory Lee initially has an interest in possession in the trust. The trustees of such trust are Rathbone Trustees Jersey Limited. If certain conditions are met or not (as the case may be) Frank Timis will cease to be a beneficiary in respect of some or all of the trust assets. The 1,000,000 Ordinary Shares held by the trust are shown as Ordinary Shares in which both Frank Timis and Gregory Lee are interested.

2 Vasile Frank Timis has a beneficial interest in 7,768,387 Ordinary Shares registered in the name of Lex Trust Company ATFT Timis Trust.

3 Glenn Robert Featherby has a beneficial interest in 2,073,980 Ordinary Shares registered in the name of Avenger Investment Holdings Limited.

6.2 Save as disclosed in this document, none of the Directors nor any member of his immediate family or any person connected with him holds or is beneficially or non-beneficially interested, directly or indirectly, in any shares or options to subscribe for, or securities convertible into, shares of the Company or any of its subsidiary undertakings.

6.3 Details of the total number of options (in the case of the Unapproved Share Option Arrangements) and reversionary interests under the Trust (in the case of the Executive Option Scheme) granted to the Directors outstanding as at 19 September 2002 (being the latest practicable date prior to the publication of this document) are as follows:

Unapproved Share Option Arrangements

<i>Director</i>	<i>Date of grant</i>	<i>Number of Ordinary Shares</i>	<i>Exercise price (p)</i>	<i>Exercise period</i>
Vasile Frank Timis	19.09.02	250,000	60	27.09.03-26.03.05
Frank David Wheatley	19.09.02	250,000	60	27.03.03-26.03.04
William Henry Humphries	19.09.02	500,000	60	27.03.03-26.03.04

Executive Option Scheme

<i>Director</i>	<i>Date of grant</i>	<i>Number of Ordinary Shares</i>
Gregory Jonathan Lee	19.09.02	300,000
Glenn Robert Featherby	19.09.02	250,000

- 6.4 In addition to the interests of the Directors set out in paragraph 6.1 above, as at 19 September 2002 (being the latest practicable date prior to the publication of this document), insofar as is known to the Company, the following persons were, or will at Admission, be directly or indirectly interested (within the meaning of Part VI of the Act) in 3 per cent. or more of the issued share capital of the Company:

<i>Name</i>	<i>Number of Ordinary Shares (at the date of this document)</i>	<i>Percentage of issued Ordinary Shares (at the date of this document)</i>	<i>Number of Ordinary Shares (at the date of Admission)</i>	<i>Percentage of issued Ordinary Shares (at the date of Admission)</i>
Ballure Trading Limited	9,538,000	23.46	9,538,000	16.64
Alker Investments Limited	2,200,000	5.41	2,200,000	3.84
Voldemort Limited	2,000,000	4.92	2,000,000	3.49
Strategic Capital Super Services	1,311,812	3.23	1,311,812	2.29

- 6.5 Save as disclosed above, there are no persons, so far as the Company is aware, who are or will be immediately following Admission interested, directly or indirectly, in 3 per cent. or more of the Company's issued share capital, nor, so far as the Company is aware, are there any persons who at the date of this document or immediately following Admission, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.
- 6.6 Save as disclosed in this document, no Director is or has been interested in any transactions which are or were unusual in their nature or conditions or significant to the business of the Company or the Group during the current or immediately preceding financial year or which were effected during any earlier financial year and remain in any respect outstanding or unperformed.
- 6.7 There are no outstanding loans or guarantees provided by the Company or the Group to or for the benefit of any of the Directors.

7. Directors' remuneration and service agreements

- 7.1 The Company, or, in the case of Gregory Lee, Regal Jersey, has entered into the following service agreements with the Executive Directors (the "Executive Service Agreements"):

<i>Name</i>	<i>Date of agreement</i>	<i>Annual salary (£)</i>
Vasile Frank Timis	19 September 2002	15,000
Glenn Robert Featherby	19 September 2002	70,000
Gregory Jonathan Lee	19 September 2002	85,000

- 7.2 The principal terms of the Executive Service Agreements for Mr Featherby and Mr Lee are as follows:

- (a) each of the Executive Service Agreements is terminable on not less than 3 months' written notice by the employing company or 6 months' written notice by the relevant Executive Director;
- (b) each of Mr Featherby and Mr Lee is entitled to private medical expenses insurance providing cover for the Executive, his spouse and dependent children;
- (c) each of Mr Featherby and Mr Lee is entitled to:
 - (i) a discretionary annual bonus subject to the approval of the Remuneration Committee;

- (ii) a contribution of 10 per cent. of basic salary to a company or personal pension plan;
- (iii) a housing allowance of £1,500 (net) per month;
- (iv) life insurance cover;
- (v) 30 days annual holiday;
- (d) the appointment is full time; and
- (e) for a period of 6 months after the date of termination of his employment less any time spent on garden leave, the Executive Director is prohibited from:
 - (i) accepting orders from customers of any member of the Regal Group with whom the Executive Director has had dealings or of which he has knowledge for products or services which any member of the Regal Group does, or proposes in the 12 months following termination to, deal in, produce, market or sell (or provide in the case of services);
 - (ii) soliciting business for such products or services from customers of any member of the Regal Group with whom the Executive Director has had dealings or of which he has knowledge by virtue of carrying out his duties; and
 - (iii) soliciting senior employees to leave the employment of the Company or any other member of the Regal Group, if such employee is likely to have confidential information about any member of the Group.

The Executive Director is also prohibited, for an unlimited period following termination of his employment, from *inter alia* attempting to induce customers of any member of the Group to cease to do business with the Group or to change the terms on which it does business with the Group and from using or disclosing any confidential information about the Group or any of its members.

7.3 The principal terms of Mr Timis' appointment as Executive Chairman are as follows:

- (a) the Executive Service Agreement is terminable on the giving of not less than 6 months' written notice by either party;
- (b) Mr Timis will be required to devote up to 10 hours per week to his duties as Executive Chairman;
- (c) Mr Timis will not be entitled to any life insurance, other benefits or pension contributions; and
- (d) the restrictive covenants in Mr Timis' Executive Service Agreement are identical to those of Mr Featherby and Mr Lee, and are described in paragraph 7.2(e) above.

7.4 On 19 September 2002, each of Mr Humphries and Mr Wheatley (the "Non-executive Directors") entered into a letter of engagement with the Company relating to their respective appointments as non-executive directors for a fixed term of 12 months, following which they may be reappointed by mutual agreement. The principal terms of their engagements are as follows:

- (a) directors' fees of £15,000 per annum (plus reasonable expenses) are payable by the Company; and
- (b) the appointment will terminate immediately if *inter alia* the Non-executive Director concerned becomes prohibited by law from acting as a director, is in breach of the Company's share dealing code, is in breach of the terms of his appointment or is guilty of gross misconduct.

7.5 Save as disclosed in this document, there are no service agreements or agreements for the provision of services existing or proposed between the Directors and the Company or the Group.

- 7.6 In the financial year ended 31 December 2001 the aggregate remuneration paid including pension contributions and benefits in kind granted to the Directors was £nil.
- 7.7 On the basis of the arrangements in force at the date of this document it is estimated that the aggregate remuneration payable including pension contributions and benefits in kind granted to the Directors for the year ending 31 December 2002 will be approximately £136,000.

8. Executive Incentive Arrangements

8.1 Executive Option Scheme

The following is a summary of the Executive Option Scheme.

(a) *Introduction*

Under the Executive Option Scheme, participants may be granted a reversionary interest which initially tracks the value of a set number of Ordinary Shares held in the Trust that will be subject to the achievement of challenging performance conditions by the participants. A reversionary interest is an interest in a proportion of the assets of the Trust. If the Trustee awards a reversionary interest, the assets comprised in such interest will initially be a pre-determined number of Ordinary Shares and a participant shall only be entitled to the future growth in value of the interest of assets.

(b) *Eligibility*

Any individual who is a beneficiary under the Trust will be eligible to be awarded a reversionary interest.

(c) *Awards of Executive Options*

The Remuneration Committee will recommend to the Trustee that awards of reversionary interests in the assets of the Trust (“Awards”) be made. The Trustee in its absolute discretion will determine whether such an Award be made and the number of Ordinary Shares to be initially comprised in the assets of the Trust subject to each Award. The assets subject to each Award will be held within an appointed sub-fund of the Trust. Each Award will be a stand-alone agreement between the Trustee and the participant.

Awards will not be personal to the participant and may be transferred or assigned. However, if an Award is assigned to a non-family member (or trustees of a family trust) the potential benefits are significantly reduced and no Ordinary Shares can be acquired by the assignee. Awards are not pensionable. No payment will be required for an Award.

(d) *Value of Executive Options*

It is proposed that the Group provides funds to the Trustee, from time to time, to enable it to acquire, at market value or less, the Ordinary Shares comprised in the Trust assets subject to an Award.

Prior to Admission, the assets of the Trust will initially comprise 650,000 Ordinary Shares.

At any given time the value of an Award will be determined by the value of the assets within the sub-fund less an amount equal to the initial market value of the appointed sub-fund. Therefore, a participant shall only benefit from any future growth in the value of the sub-fund assets.

(e) *The vesting of an Award and the performance conditions*

The vesting of an Award will (under normal circumstances) be dependent upon the participant remaining in employment or office and the achievement of performance conditions over the performance period. In addition, other non-employment related conditions may be attached.

For grants of Awards made prior to Admission the performance condition will be the Group having four drilling wells in commercial production within 12 months of the Award being granted by the Trustee.

Up to the end of the performance period, the Remuneration Committee will determine the extent to which an Award has vested. 50 per cent. of the Award will notionally vest after 12 months' service providing the performance condition has been met and the remaining 50 per cent. will notionally vest after a further 6 months' service providing the performance condition was met at the end of the initial 12 month period.

Upon notional vesting the participant may have to wait until a further condition is met (or not met), as specified in each Award, before the Award becomes vested. On the Award becoming vested the participant becomes absolutely entitled to the assets in the sub-fund over which he had been granted an Award.

For Awards made after Admission, the Remuneration Committee will recommend suitable and challenging performance conditions to the Trustee.

(f) *Cessation of employment or office*

If the participant ceases to be employed by the Group by reason of death, injury, disability, retirement, redundancy, or because his employing company or part of the business in which he is employed is transferred out of the Group, his Award will vest in full (whether the performance condition has been met or not) on the date of cessation of employment. However, such participant may be required to wait until further non-employment related conditions are met (or not met), as specified in each Award, before he becomes absolutely entitled to the assets in the sub-fund over which he had been granted an Award.

If the participant ceases to be employed by the Group for any other reason, any vested part of the Award will remain valid but any unvested part of the Award will be immediately forfeited by the participant.

(g) *Takeover*

In the event of a takeover of the Company (or similar event), the performance period will end on the date of takeover. In such circumstances, the Award will vest in full whether or not the performance condition has been met or not. However, a participant may be required to wait until further non-employment related conditions are met (or not met), as specified in each Award, before he becomes absolutely entitled to the assets in the sub-fund over which he had been granted an Award.

(h) *Limits on Awards*

The Remuneration Committee will take note of the limits mentioned in paragraph 8.4 below prior to making any recommendation to the Trustee that Awards be made.

8.2 Unapproved Share Option Arrangements

The following is a summary of the Unapproved Share Option Arrangements.

(a) *Introduction*

Options granted pursuant to the Unapproved Share Option Arrangements ("Unapproved Options") confer a right to acquire Ordinary Shares at a future date at a pre-determined price which shall generally be the market value of an Ordinary Share at the date the Unapproved Option is granted. It is intended that Unapproved Options granted prior to Admission shall have an exercise price equal to the market value of an Ordinary Share at the date of grant.

An Unapproved Option is one which is not approved by the Inland Revenue and would therefore not be entitled to any beneficial tax or national insurance treatment.

(b) *Eligibility*

The Remuneration Committee will use its discretion in approving the granting of Unapproved Options to employees and directors. Whilst there is currently no intention to grant any further Unapproved Options, over and above those detailed in this document, the Remuneration Committee reserves the right to do so when it believes it is in the best interests of the Company to do so. Each Unapproved Option will be in the form of a stand-alone agreement.

Unapproved Options will be personal to the option holder and may not be transferred or assigned. Unapproved Options are not pensionable. No payment will be required for the grant of Unapproved Options.

(c) *Value of Unapproved Options*

The value of the Unapproved Options awarded by the Company shall be equal to the market value of the Ordinary Shares at the date of grant multiplied by the number of Ordinary Shares over which options will be granted.

(d) *Performance condition*

It is not intended to attach any performance conditions to the Unapproved Options granted prior to Admission. Future Unapproved Options are likely to have performance conditions attached unless the Remuneration Committee believes it is in the best interests of the Company not to.

(e) *Vesting and exercise of Unapproved Options*

The Unapproved Options granted to William Humphries and Frank Wheatley provide for immediate vesting but do not permit exercise for a period of six months after the grant date. The remaining two Unapproved Options for Vasile Frank Timis and Viktor Dmitriyev provide for immediate vesting but only permit 50 per cent. of the option to be exercised on, or after, the first anniversary of grant and then the balance 18 months after the date of grant.

In general, any future Unapproved Options will not be exercisable until a period, as determined by the Remuneration Committee, has expired.

(f) *Cessation of employment or office*

Should any of the Unapproved Option holders cease to be employed prior to exercise, their Unapproved Options will lapse except in exceptional circumstances, on their death or the sale of the Company.

(g) *Takeover*

On a takeover of the Company, the Unapproved Option holder may exercise his Unapproved Option in full or exchange it for options in the acquiring company.

(h) *Assignment*

Except in the event of the death of the Unapproved Option holder, when the personal representatives may exercise vested options, Unapproved Options are not transferable or assignable and any attempt to do so would render the Unapproved Option void.

(i) *Amendments to the Unapproved Options*

No modification of any provision of the terms of the Unapproved Options shall be effective unless in writing and signed by both the Company and the holder of the Unapproved Option.

8.3 The Regal Petroleum plc Employee Benefit Trust

The trust deed establishing the Trust provides that the Trustee, where permitted, shall hold all trust assets and income received from time to time (including any permitted accumulations of income) upon trust for all or any one or more of the permitted beneficiaries (with power to appoint such assets or income in favour of such permitted beneficiaries) as the Trustee may in its absolute discretion determine.

The permitted beneficiaries are employees (including executive directors) and former employees of any company in the Group and the spouses and minor children of such employees and former employees.

The purpose of the Trust is to facilitate and encourage the ownership of Ordinary Shares (and other assets) by or for the benefit of employees by the acquisition and distribution of Ordinary Shares (and other assets).

The Trust may not acquire Ordinary Shares at any time if, as a result, the total number of Ordinary Shares held by it would exceed 10 per cent. of the Company's issued ordinary share capital at that time unless permitted by ordinary resolution of the members of the Company.

The duration of the Trust is eighty years and governed by Scottish law.

The Trustee has wide powers of investment and may enter into any transaction which it considers will further or facilitate the acquisition or holding of Ordinary Shares by beneficiaries. The Trustee also has wide powers to borrow monies, and may do so upon the security of trust assets. The Trustee has the power to enter into any agreement with the Company to purchase or subscribe for Ordinary Shares to be acquired by beneficiaries under options granted over such Ordinary Shares.

The Trustee will normally abstain from voting in respect of Ordinary Shares held in the Trust. However, if a general offer is made to the Company's members, the Trustee will have regard to the interests of the permitted beneficiaries.

The Trust may be amended by the Company and the Trustee provided that no amendment shall have the effect of causing the Trust to cease to be an employees' share scheme within the meaning of Section 743 of the Act, or a trust to which Section 86 of the Inheritance Tax Act 1984 applies.

The Trustee will be an independent non-resident trust company. The Company has the power to appoint new or additional trustees. The general operation and administration of the Trust will be monitored by the Remuneration Committee.

8.4 Limitations under share option schemes

The maximum number of Ordinary Shares which may be placed under option for subscription under share option schemes when aggregated with the number of Ordinary Shares allocated for subscription in the preceding 10 years under any other employee share option scheme adopted by the Company following Admission shall not exceed 10 per cent. of the Company's issued ordinary share capital immediately prior to that day.

9. Taxation

The following statements are intended only as a general guide to certain aspects of current UK tax legislation and to the current practice of the UK Inland Revenue as they apply to holders of Ordinary Shares and may not apply to certain Shareholders, such as dealers in securities. The following statements are not exhaustive and any persons who are in doubt as to their tax position are strongly recommended to consult their professional advisers immediately. Shareholders should note that the levels and bases of, and relief from, taxation may change and that changes may affect the benefits of investment in the Company.

(a) Taxation on dividends

Under current UK tax legislation, no UK tax will be withheld from any dividend paid by the Company.

An individual Shareholder resident (for tax purposes) in the UK who receives a dividend from the Company will be entitled to a tax credit equal to one-ninth of the dividend which he may set off against his total income tax liability. Basic rate and starting rate taxpayers will normally have no further liability to tax on the dividend. Higher rate taxpayers will be liable to tax on the sum of the dividend plus the tax credit at the higher rate of 32.5 per cent. against

which liability the tax credit can be offset. So, for example, a dividend of £80 will carry a tax credit of £8.89 (one-ninth of £80) and to the extent that the dividend and the related tax credit fall above the threshold for the higher rate of income tax, a taxpayer will be subject to income tax on £88.89 at 32.5 per cent. ie £28.89 less a tax credit of £8.89, leaving a tax charge of £20.

Subject to certain limited exceptions, a corporate Shareholder resident (for tax purposes) in the UK will not be liable to UK corporation tax on any dividend received from the Company. Such corporate Shareholders will not be able to reclaim repayment of the tax credit attaching to any dividend.

UK pension funds will not be able to reclaim the tax credit attaching to any dividend paid by the Company.

The right of a Shareholder who is not resident (for tax purposes) in the UK to a tax credit in respect of a dividend received from the Company and to claim payment of any part of that tax credit from the Inland Revenue will depend on the existence and terms of any double taxation convention between the UK and the country in which the holder is resident. Such a Shareholder should consult his own tax adviser concerning his tax liability on dividends received, whether he is entitled to claim any part of the tax credit and, if so, the procedure for doing so.

(b) *UK taxation on chargeable gains*

A disposal of all or any part of the Ordinary Shares by an individual Shareholder who is either resident or ordinarily resident in the UK for tax purposes or is not UK resident but carries on a trade, profession, vocation in the UK through a branch or agency and has used, held or acquired Ordinary Shares for the purposes of such trade, profession or vocation or such branch or agency, may, depending on the Shareholder's individual circumstances, give rise to a liability to pay UK taxation on chargeable gains. Individuals, personal representatives and trustees may be entitled to taper relief, which may serve to reduce the chargeable gain.

An individual Shareholder who has, on or after 17 March 1998, ceased to be resident and ordinarily resident in the UK (for tax purposes) for a period of less than 5 years and who disposes of the Ordinary Shares during that period may also be liable on his return to the UK to any capital gain realised (subject to any available exemption or relief).

Companies resident (for tax purposes) in the UK are not entitled to taper relief, but are entitled to indexation allowance, which may reduce the chargeable gain. For a company holding 10 per cent. or more of the Company's ordinary share capital, a gain on the sale of the shares will be exempt from tax on chargeable gains provided certain conditions are met.

(c) *Inheritance tax ("IHT") relief*

Unquoted ordinary shares in a qualifying company such as the Company ordinarily qualify for 100 per cent. IHT Business Property Relief provided they have been held for two years prior to the event giving rise to IHT. Shares traded on AIM are regarded as unquoted for this purpose and are therefore in principle eligible for IHT Business Property Relief.

(d) *Stamp duty and stamp duty reserve tax*

Stamp duty and stamp duty reserve tax ("SDRT") treatment under the Placing will be as follows:

- (i) in relation to the Ordinary Shares being issued directly to subscribers by the Company under the Placing, no liability to stamp duty or SDRT will arise on their issue or on the issue of definitive share certificates in respect of such Shares by the Company;
- (ii) the subsequent conveyance or transfer of Ordinary Shares outside the CREST system will generally be liable to *ad valorem* stamp duty on the instrument of transfer at the rate of 0.5 per cent. (rounded up to the nearest multiple of £5.00) of the amount or value of the consideration given. An unconditional agreement to transfer shares will generally be subject to SDRT at 0.5 per cent. of the amount or value of the agreed

consideration. If within six years of the date of the agreement becoming unconditional, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any SDRT already paid will be refunded (generally, but not necessarily, with interest) provided that a claim for payment is made or any outstanding liability to SDRT will be cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee;

- (iii) as explained in the section headed “*Admission, settlement and dealings*” in Part I of this document, investors may elect to hold their Ordinary Shares in uncertificated form through CREST. No stamp duty or SDRT will arise on a transfer of Ordinary Shares into CREST for conversion into uncertificated form, unless such transfer is made for a consideration in money or money’s worth, in which case a liability to SDRT will arise, usually at the rate set out in sub-paragraph (ii) above; and
- (iv) a transfer of Ordinary Shares effected on a paperless basis within CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration. CREST is obliged to collect SDRT from the purchaser of the Ordinary Shares on relevant transactions settled within the CREST system.

Where Ordinary Shares are issued or transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts, stamp duty (in the case of a transfer only to such persons) or SDRT may be payable at the rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances the value of the Ordinary Shares or, in the case of an issue to such persons, the issued price of the Ordinary Shares.

The above statements are intended as a general guide to the current position. It is directed to UK residents beneficially entitled to their Ordinary Shares held as investments. Special rules apply to certain categories of person, including intermediaries and persons connected with depository arrangements and clearance services. Certain categories of person are not liable to stamp duty or SDRT, and others may be liable at a higher rate or may, although not primarily liable for the tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

Any person who is in any doubt as to his tax position or who may be subject to tax in any other jurisdiction should consult his professional adviser.

10. Overseas Shareholders

10.1 General

No action has been taken by the Company that would permit an offer of Ordinary Shares or possession or distribution of this document or any other offering material in any jurisdiction where action for that purpose is required. The distribution of this document and the offer of Ordinary Shares in certain jurisdictions may be restricted by law and therefore the persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

10.2. Canada

In Canada, the Ordinary Shares are being offered under the Placing on a private placement basis solely in the provinces of Ontario and Quebec. The following provides additional information which purchasers resident in the provinces of Ontario and Quebec should review carefully.

(a) *Ontario residents*

The Placing is being made available in the Province of Ontario pursuant to the exemptions from the prospectus requirements provided to “accredited investors” under Ontario Securities Commission Rule 45-501 – Exempt Distributions (“Rule

45-701”) promulgated under the Securities Act (Ontario)(“OSA”), which, in certain circumstances, permits offerings in Ontario of securities of foreign issuers without requiring Ontario purchasers to be given the contractual right of action prescribed by Section 4.2 of Ontario Securities Commission Rule 45-501. As a result, Ontario purchasers will not receive the contractual right of action prescribed by that rule and must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action for compensation under the Financial Services and Markets Act 2000 (UK).

(b) *Quebec residents*

Sales to purchasers resident in Quebec are being made pursuant to the exemptions from the prospectus requirements of the Securities Act (Quebec) (“QSA”) provided by sections 43 and 51 QSA. Quebec residents will not be entitled to rights of action for rescission or damages under local securities laws. Such purchasers are referred to the section above under the heading “Ontario residents” for a description of other remedies that may be available to them. Prospective purchasers in Quebec are advised to consult their own legal advisers as to which or whether any of such rights may be available to them.

(c) *Resale restrictions*

The distribution of Ordinary Shares by the issuer in Canada under the Placing is being made on a private placement basis solely in the provinces of Ontario and Quebec and exempt from the requirement that the issuer prepare and file a prospectus with respect to such distribution with securities regulatory authorities in each such province of Canada. The Company is not and has no intention of becoming a reporting issuer in Ontario or Quebec. Any resale of Ordinary Shares in Canada is restricted and must be made: (i) through an appropriately registered dealer or in accordance with an exemption from the registration requirements of applicable securities laws; and (ii) in accordance with or pursuant to an exemption from the prospectus requirements of applicable Canadian securities laws, which vary depending on the province; or (iii) pursuant to an order or ruling of the relevant securities regulatory authority. Purchasers of Ordinary Shares are advised to seek legal advice prior to any resale of Ordinary Shares in Canada.

(d) *Taxation and eligibility for investment*

Canadian purchasers of Ordinary Shares should consult their own tax advisers with respect to the tax consequences of an investment in Ordinary Shares in their particular circumstances. Canadian purchasers should also consult their legal advisers with respect to the eligibility of the Ordinary Shares for investment under relevant Canadian legislation.

(e) *Representations of Canadian purchasers*

Each purchaser of Ordinary Shares under the Placing in Canada will be deemed to represent to the Company and Evolution Beeson Gregory that such purchaser and any ultimate purchaser for which such initial purchaser is acting as agent:

- (i) is entitled under applicable provincial securities laws to purchase such Ordinary Shares without the benefit of a prospectus qualified under such securities laws;
- (ii) is basing its investment decision solely on this document and not on any other information concerning the issuer or the offering;
- (iii) has reviewed the terms referred to above under “Resale Restrictions”.
- (iv) if the purchaser is in Ontario, such purchaser is either a “designated institution” or is purchasing from “a fully registered dealer” (in both cases within the meaning of Section 204 of the Regulation to the OSA) and, in either case, is:

- (A) purchasing the Ordinary Shares with the benefit of the prospectus exemption provided to “accredited investors” within the meaning of Rule 45-501; or
- (B) is a “portfolio adviser” within the meaning of Ontario Securities Commission Rule 45-504 and is purchasing Ordinary Shares on behalf of a “managed account” within the meaning of that rule;
- (v) if the purchaser is in Quebec, such purchaser is a “sophisticated purchaser” within the meaning of Section 44 of the QSA, purchasing the Ordinary Shares as principal, or is a “sophisticated purchaser” within the meaning of Section 45 of the QSA, purchasing the Ordinary Shares for the portfolio of a person managed solely by it, or is purchasing from a registered dealer with an unrestricted practice shares with an aggregate acquisition cost to such purchaser of at least Cdn\$150,000;
- (vi) such purchaser acknowledges and agrees that the offer and sale of Ordinary Shares was made exclusively through this document and was not made through an advertisement of the Ordinary Shares in any printed media of general and regular paid circulation, radio or television or any other form of advertising; and
- (vii) such purchaser has not been created and is not being used to permit such purchase without the filing of a prospectus.

(f) *Language of document*

Each purchaser in Canada of Ordinary Shares acknowledges that it is such purchaser’s express wish that all documents evidencing or relating in any way to the sale of Ordinary Shares be drafted in the English language only. *Chaque acheteur au Canada des actions reconnaît que c’est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des actions soient rédigés uniquement en langue anglaise.*

(g) *Enforceability of judgments in Canada*

All of the Directors, senior management of the Group and experts named in this document are residents of, or may be located in, countries outside of Canada. The Company is a public company incorporated under the laws of England and Wales. As a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the Company or such persons. Furthermore, all or a substantial proportion of the assets of the Company and such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Company or any such persons in Canada or to enforce a judgment obtained in Canadian courts against the Company or such persons outside Canada.

10.3 Other jurisdictions

None of the Ordinary Shares may be offered for sale or purchase or be sold or delivered, and this document and any other offering material in relation to the Ordinary Shares may not be circulated in any jurisdiction where to do so would break any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration other than in the United Kingdom and certain filings with Securities Commissions in Canada.

11. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Group in the two year period immediately preceding the date of this document and are, or may be, material or which contain a provision under which any member of the Group has an obligation or entitlement, which is material to the Group at the date of this document:

11.1 Joint Venture Agreement

A joint venture and production sharing agreement dated 10 August 1999 and made between (1) Regal Jersey and (2) Chernihiv. The agreement relates to the exploration and development of the Gas Field and production of the subsequent gas. The Gas Field is the area covered by three licences: GOL (No. 965 Golotovschinska), MEX (No. 966 Mekhediviska) and SV (No. 967 Svyrydivske). Negotiations are taking place in respect of the area covered by a further licence (LUT (No. 838 Lutsenkivske), with a view to incorporating that licence within the joint venture. Further details of the licences are set out in paragraph 11.2 below. The principal terms of the agreement provide as follows:

(a) *Funding*

Regal Jersey has an obligation to provide financial and technical resources to the joint venture. The amount of funding required is determined by Regal Jersey and approved by the management board of the joint venture (comprising representatives of both parties). To the extent the joint venture requires additional funding this is to be arranged by Regal Jersey. Funding provided or arranged by Regal Jersey is treated as a loan bearing interest at a normal commercial rate for investments in Ukraine. The interest rate currently payable is 8 per cent. The joint venture agreement provides that 90 per cent. of the revenues (net of expenses) obtained from the joint venture are to be used to repay the interest and principal in respect of funding arranged by Regal Jersey, which will be under no further obligation to provide funding if the joint venture is, or is likely to be, unable to meet its repayment obligations.

(b) *Ownership of joint venture assets*

The assets of the joint venture are jointly owned by Regal Jersey and Chernihiv, with Regal having a 75 per cent. interest and Chernihiv having 25 per cent.

(c) *Distribution*

The revenues of the joint venture are first allocated to repayment of the expenses of the joint venture, with 90 per cent. of the remaining revenues being allocated to repayment of the interest and principal on the funding arranged for or provided to the joint venture by the Regal Group.

Chernihiv and Regal Jersey may elect either to share the profits of the joint venture or to share the revenues from the production of hydrocarbons, with slightly different provisions applying depending on which route is chosen. If the parties elect to share profits, the amount to be distributed is to be determined by the management board, although at least 10 per cent. of the available profits must be retained in the joint venture. If they elect to share the revenues of hydrocarbon production, then the full amount of any balance remaining after deduction of expenses and loan servicing may be shared between the parties in their ownership proportions.

Pursuant to a verbal agreement, the Company has elected to share revenues and has agreed that until the amount required to service the loans falls below 90 per cent. of the net revenues, Chernihiv will receive the full 10 per cent. which remains after payments of interest and principal on the loans, by way of an advance payment of its future share of revenues. Once the proportion of production revenues available for sharing between the parties exceeds 10 per cent. of the net revenues, Chernihiv's share will revert to 25 per cent., but will be adjusted to take account of the advance payments made to Chernihiv.

(d) *Management of the joint venture*

Regal Jersey is responsible for the day to day control and management of the joint venture, subject to any matters requiring the consent of the management board. The management board consists of two representatives from Chernihiv and two from Regal Jersey. Regal Jersey has the right to appoint the chairman of the management board, who has a casting vote.

(e) *Termination*

The duration of the joint venture is from the date of the agreement until the expiry of the relevant licences (including any extension to such licences), unless terminated earlier as permitted by the agreement. The licences have subsequently been replaced but the operation of the joint venture has been unaffected. Regal Jersey may terminate the agreement if past or current operations resulted or may result in failure or threat to payback the financing provided by Regal Jersey. Both parties are entitled to terminate if there is a material breach of the agreement by the other party which is not remedied within 60 days, in the event of *force majeure* (subject to certain procedural requirements), in the event of insolvency of the other party, if it becomes impossible for the joint venture to carry on its operations or if the licences are terminated by the Ukrainian authorities or a court orders termination of the agreement, if the joint venture fails for 24 months following the completion of the pilot development or it does not have all the necessary consents and approvals required.

(f) *Environmental*

Chernihiv has indemnified Regal Jersey in respect of certain environmental costs arising out of pollution existing prior to the date of the joint venture agreement or caused by Chernihiv failing to comply with relevant legislation. On termination of the Joint Venture Agreement, Chernihiv and Regal Jersey will carry out a remediation program as required by the relevant government authority, other than in respect of installations and pipelines which are being assumed by Chernihiv.

(g) *Miscellaneous provisions*

Chernihiv has undertaken not to compete with the joint venture in the Gas Field without the prior agreement of Regal Jersey.

Disputes under the joint venture agreement are to be resolved by international arbitration in Stockholm. The governing law is the law of Ukraine, save where, in the case of arbitration, the arbitrators determine that Ukrainian law does not cover the issue in dispute, when Swiss law applies.

11.2 The Exploration Licences

The Joint Venture Project currently has the benefit of three licences, each of which was issued on 27 June 2002 by the Ministry of Ecology and Natural Resources of Ukraine. The licences are valid for two years. The licences were granted to Chernihiv for works to be carried out under the Joint Venture Agreement. Between them, the licences cover an area of 140 square kilometres in the Svyrydivske gas field (SV 52), 44 square kilometres relating to the Mehedivsko site in the Golotovshinske gas field (MEX 3) and 85 square kilometres in the Golotovshinske gas field (GOL 1 and GOL 2). The licences permit exploratory exploitation of the wells and evaluation of gas resources by the relevant state committee and some further commercial production. All the licences are conditional *inter alia* on work being carried out in accordance with relevant legislation and the payment on time of certain amounts to the relevant authorities as required by such legislation. Failure to comply with the conditions may entitle the relevant authority to cancel the licences.

11.3 Mountfield Loan Agreement

A loan agreement dated 30 May 2001 and made between (1) Mountfield Commodities Limited (“Mountfield”) and (2) Regal Jersey pursuant to which Regal Jersey agreed to borrow the sum of \$1,125,000 from Mountfield, repayable in 14 equal instalments commencing on 31 October 2001 with the final payment due on 30 November 2002. Interest is payable on the balance outstanding at a rate of 30 per cent per annum. The loan may be repaid early although interest for the full period of the loan remains payable. Mountfield may convert the outstanding balance of the loan (up to \$1,000,000) into ordinary shares in Regal Jersey at a conversion price of \$1 per share at any time prior to 15 November 2002. Regal Jersey is currently in default of the payment terms of the loan and on 3 July 2002 it entered

into a standstill agreement with Mountfield according to which Mountfield has agreed not to enforce the terms of its security and to waive certain of its other rights under the loan agreement in consideration for an undertaking by Regal to pay to Mountfield all outstandings under the loan within 10 business days following Admission. If payment has not occurred by then, the standstill agreement will remain in force until 6 October 2002. Viktor Dmitriyev is a shareholder of Mountfield.

11.4 Bridging Loan

A loan agreement dated 11 September 2002 and made between (1) Pericles Investments Limited (“Pericles”) and (2) the Company pursuant to which the Company agreed to borrow the sum of £240,000 from Pericles, to be repaid by 9 October 2002. An arrangement fee of £3,000 was payable by the Company in connection with the Bridging Loan.

Interest is payable on the principle amount of the rate of 15 per cent. per annum.

11.5 Share Exchange Agreement

A share exchange agreement dated 19 September 2002 and made between (1) the shareholders of Regal Jersey (2) Regal Petroleum (Jersey) Limited and (3) the Company. Under the terms of the agreement, Regal Petroleum (Jersey) Limited agreed to purchase the entire issued share capital of Regal Jersey in consideration for the issue to the shareholders of Regal Jersey of an aggregate 39,999,980 Ordinary Shares (the “Consideration Shares”). The debt owing by Regal Petroleum (Jersey) Limited to the Company in respect of the allotment of the Consideration Shares was capitalised and 20,000 ordinary shares of £1 each in Regal Petroleum (Jersey) Limited were issued to the Company on 19 September 2002.

11.6 Placing Agreement

An agreement (“Placing Agreement”) dated 20 September 2002 and made between (1) the Company (2) the Directors and (3) Evolution Beeson Gregory pursuant to which, Evolution Beeson Gregory has agreed to use its reasonable endeavours, as agent for the Company, to procure places for the Placing Shares at the Placing Price. The Placing Agreement is conditional *inter alia* on Evolution Beeson Gregory procuring subscribers for 16,666,667 Placing Shares and Admission becoming effective no later than 27 September 2002 (or such later date as Evolution Beeson Gregory and the Company may agree, being not later than 20 October 2002). Evolution Beeson Gregory is not underwriting the Placing.

Under the Placing Agreement and subject to it becoming unconditional:

- (a) the Company will pay Evolution Beeson Gregory commissions aggregating 5 per cent. of the value at the Placing Price of the Placing Shares together with a corporate finance advisory fee of £130,000; and
- (b) the Company will pay certain other costs and expenses (including applicable VAT) of, or incidental to, the Placing including all fees and expenses payable in connection with the Placing and Admission, expenses of the registrars, printing and advertising expenses, postage and all other reasonable legal, accounting and other professional fees and expenses.

The Placing Agreement contains warranties given by the Company and the Directors to Evolution Beeson Gregory as to the accuracy of the information contained in the Admission Document and other matters relating to the Group and its business. The Company and the Executive Directors have also given certain indemnities to Evolution Beeson Gregory in respect of certain liabilities it may incur in respect of the Placing and Admission. The Executive Directors have also given a tax covenant in favour of the Company.

The Company has undertaken that it will not exercise its rights under the Articles to approve transfers of Ordinary Shares by Restricted Shareholders prior to the end of the Lock-In Period without the consent in writing of Evolution Beeson Gregory.

Evolution Beeson Gregory are entitled to terminate the Placing Agreement prior to Admission in certain specified circumstances including, *inter alia*, a material breach of the Placing Agreement or any of the warranties contained in it or upon the occurrence of a *force majeure* event before 5.00 p.m. on the date of the Placing Agreement.

Evolution Beeson Gregory will utilise £30,000 of the fees paid by the Company to Evolution Beeson Gregory to subscribe for 50,000 new Ordinary Shares at the Placing Price following Admission.

11.7 Nominated adviser and broker agreement

A nominated adviser and broker agreement dated 20 September 2002 and made between (1) the Company (2) the Directors and (3) Evolution Beeson Gregory pursuant to which the Company has appointed Evolution Beeson Gregory to act as nominated adviser and broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay Evolution Beeson Gregory a fee of £30,000 plus VAT per annum for its services as nominated advisor and broker under this agreement. The agreement contains certain undertakings, warranties and indemnities given by the Company and the Directors to Evolution Beeson Gregory. The agreement is for a fixed term of 12 months and thereafter is subject to termination on 30 days' prior written notice by either the Company or Evolution Beeson Gregory.

11.8 Lock-in agreement

In accordance with the AIM Rules, a lock-in agreement dated 20 September 2002 has been entered into between the Directors and Viktor Dmitriyev and Evolution Beeson Gregory, pursuant to which, subject to certain exemptions (including, *inter alia*, the acceptance in specified circumstances of an offer for the entire issued share capital of the Company) the Directors and Viktor Dmitriyev have agreed not to dispose of their interests, or those of their connected parties, in Ordinary Shares during the Lock-In Period. In order to maintain an orderly market in the Ordinary Shares, the Directors and Viktor Dmitriyev have further agreed not to dispose of their interests, or those of their connected parties, in Ordinary Shares for the 12 month period following the Lock-In Period provided that Evolution Beeson Gregory offers reasonably competitive prices and commission rates and is able to execute any such sale or disposal reasonably promptly.

11.9 Orderly Market Agreements

Orderly market agreements dated 20 September 2002 have been entered into between certain Shareholders and Evolution Beeson Gregory pursuant to which certain Shareholders have agreed that any sale or other disposal of Ordinary Shares during the 12 month period following the Lock-In Period shall be made through Evolution Beeson Gregory provided that Evolution Beeson Gregory offers reasonably competitive prices and commission rates and are able to execute any such sale or disposal reasonably promptly. In accordance with the Articles, certain Shareholders are prevented from disposing of their interests, or those of their connected parties, in Ordinary Shares for the Lock-In Period. The Articles permit the waiver of the Lock-In Period with the consent of the Board which in accordance with the Placing Agreement first requires the consent of Evolution Beeson Gregory.

12. Working capital

In the opinion of the Directors having made due and careful enquiry, taking into account the net proceeds of the Placing, the working capital available to the Group will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

13. Litigation

13.1 Proceedings have been threatened against Regal Jersey by Mr Fred Dewis, in respect of, amongst other things, damages for compensation for loss of office and breach of his service agreement. The aggregate sum which is alleged to be due from Regal Jersey is approximately US\$400,000. The Company believes that such assertions are unmerited and continues to defend the Group's position.

13.2 Save as disclosed above, so far as the Company is aware there are no legal or arbitration proceedings, active, pending or threatened against, or being brought by, any member of the Group which are having or may have a significant effect on the Group's financial position.

14. Consents

14.1 *Evolution Beeson Gregory*

Evolution Beeson Gregory Limited, of The Registry, Royal Mint Court, London EC3N 4LB, is a member of the London Stock Exchange and is regulated by the Financial Services Authority. Evolution Beeson Gregory has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to it in the form and context in which it appears.

14.2 *BDO Stoy Hayward*

BDO Stoy Hayward, Chartered Accountants and registered Auditors, of 8 Baker Street, London, W1U 3LL, have given and have not withdrawn their written consent to the issue of this document with the inclusion of their name and their reports in Part IV of this document and the references to such reports and their name, in the form and context in which they appear. BDO Stoy Hayward have authorised the contents of those parts of this document in which their reports appear for the purposes of Regulation 13(1)(g) of the Public Offers of Securities Regulations 1995.

14.3 *Troy-Ikoda*

Troy-Ikoda Limited, independent oil and gas experts, of The Coach House, 90 Alma Road, Windsor, Berkshire, SL4 3ET, has given and has not withdrawn its consent to the issue of this document with the inclusion of its name and its report in Part III of this document and the references to such report and its name, in the form and context in which they appear. Troy-Ikoda have authorised the contents of those parts of this document which its report appears for the purposes of Regulation 13(1)(g) of the Public Offers of Securities Regulations 1995.

15. General

15.1 *Significant changes*

Save as described in the paragraph headed "Current trading and prospects" in Part I of this document, there has been no significant change in the financial or trading position of the Group since 30 June 2002, being the end of the period to which the latest audited consolidated accounts of Regal Jersey relate.

15.2 *Net proceeds*

The net proceeds of the Placing of the Placing Shares including the commissions payable to Evolution Beeson Gregory, further details of which are set out in paragraph 11.6 above, are expected to be approximately £8.8 million net of expenses of the Placing which are estimated at £1.2 million, excluding VAT, and are payable by the Company.

15.3 *Payments to promoters*

No person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has received, directly or indirectly, within the 12 months preceding the date of this document or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:

- (a) fees totalling £10,000 or more;
- (b) securities where these have a value of £10,000 or more calculated by reference to the Placing Price; or
- (c) any other benefit with a value of £10,000 or more at the date of Admission.

15.4 *Investments in progress*

Save as disclosed in this document, the Company has no investments in progress.

15.5 *Financial information*

The financial information relating to the Group in Part IV of this document does not constitute statutory accounts within the meaning of section 240 of the Act.

16. Availability of this document

Copies of this document are available free of charge from the Company's registered office and the offices of Osborne Clarke both at Hillgate House, 26 Old Bailey, London EC4M 7HW, during normal business hours on any weekday (Saturdays and public holidays excepted) and will remain available for at least one month after Admission.

Dated 20 September 2002

