



REGAL PETROLEUM *plc*

growth through discovery and development

2004

annual report and accounts

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# our proposition

**Regal Petroleum plc** is a London based independent oil and gas producer listed on the Alternative Investment Market of the London Stock Exchange. Regal is focused on the exploration, development and production of oil and gas assets in Ukraine, Greece, Romania, Egypt and Liberia.

## Statement from Interim Chairman

This annual report covers the year ended 31 December 2004. It does not therefore cover the recent failure to find oil in commercial quantities in the Kallirachi 2 well in Greece, the subsequent fall in Regal's share price and the wholesale boardroom and senior management changes that followed. Nor does it cover the unexpected revelation on 17 June 2005 that the previous Chairman, without reference to any other Board member, had signed an agreement with Peak Resources Limited of Hong Kong, giving the latter a call option to buy 100% of the issued share capital of the subsidiary company owning Regal's assets in the Ukraine. This is being urgently studied at the time of this report going to press.

The new Board, who are detailed in this report, bring a wealth of experience of the international oil industry to the task of taking the Company forward. We are very confident that the Company has a sound base of resource assets that will enable us to move ahead strongly in 2005 and beyond. Plans to increase existing production, to cut costs and to extend exploration activity are already well under way, and we look forward with considerable optimism to the years ahead.

## Peter Heap

Interim Chairman and Non-executive Director  
20 June 2005

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## 2004 highlights

**Turnover increased** to \$42.5 million (2003: \$10.2 million)\*.

**Placing** of 13,333,334 ordinary shares which raised **\$69.8 million** (net of expenses).

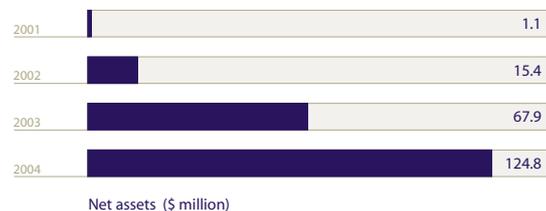
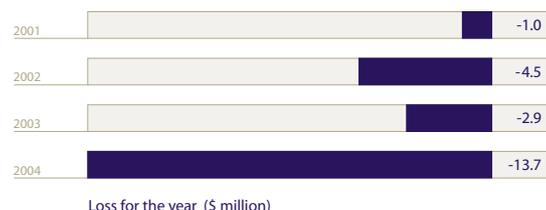
**Production** averaged 4,129 boepd (2003: 4,053 boepd)\*.

Increased commercial interest in Kavala Oil through the **investment in preference shares** for €10 million cash.

Awarded two new 20 year **production licences** in Ukraine.

**Government ratification** of the exploration, development and production licence for Suceava Block, Romania.

Acquisition of an **onshore exploration concession** in the East Ras Budran area, Gulf of Suez, Egypt.



# \$42.5m

Total revenue 2004  
(2003: \$10.2m)\*

# \$25.6m

Net cash 31 December 2004  
(31 December 2003: \$28.5m)

# 4,129 boepd

Average daily production 2004  
(2003: 4,053 boepd)\*

\* The interest in Kavala Oil S.A. was acquired on 23 October 2003 and accordingly turnover and production is only included from this date.

## at a glance

Regal's mission is to grow into a professionally managed and respected international oil and gas company with a clear focus on geographic areas and assets where value can be added.

### Romania

Suceava and Barlad licence areas

**Regal has a 100% interest in two licence areas totalling 10,388km<sup>2</sup> located in the highly prospective Moldavia Platform in north-east Romania.**

#### Exploration

A comprehensive seismic survey was completed on the Suceava Block in 2004 and the drilling of the first exploration well SE-1 commenced in December 2004. Seismic data reprocessing commenced on the Barlad Block in 2005.

### Greece

investment in Kavala Oil S.A.

**Regal has a majority interest in licence areas located in the North Aegean Sea near the coastal town of Kavala.**

#### Production

In 2004 production averaged 2,761 barrels of oil per day from the Prinos and Prinos North fields. Regal is committed to reducing costs and increasing daily production in Kavala.

# 2,761 bopd

(2003: 3,061 bopd)

### Liberia

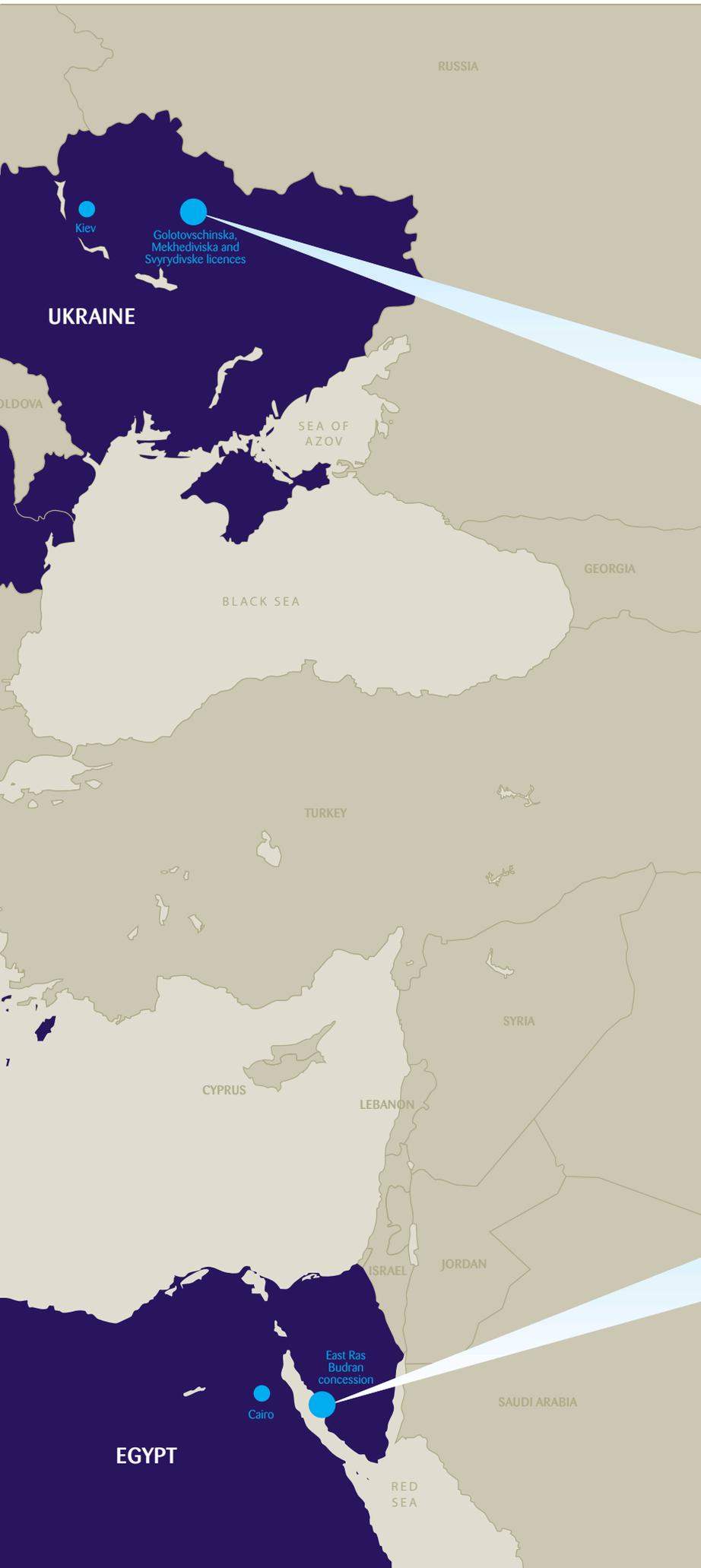
offshore exploration concessions

**In February 2005 a joint venture, in which Regal holds a 25% interest, was awarded two contiguous exploration concessions.**

#### Terms of concession

Negotiations to finalise the fiscal terms for the production sharing agreement are continuing.





## Ukraine

Golotovschinska/Mekhediviska and Svyrydivske licences

Regal has a 100% interest in two 20 year production licences in the Dneiper-Donets basin, 200km east of Kiev.

### Production

In 2004 production averaged 1,368 barrels of oil equivalent per day from four wells on production. Regal will continue to increase production by exploiting western oil technology and by performing well interventions.

**1,368**boepd  
(2003: 993 boepd)

## Egypt

East Ras Budran Concession

The concession area is in one of the most prolific petroleum provinces in the world. Surrounding oil fields nearby include Ras Budran, October, Abu Rudeis, Belayim Onshore and Belayim Offshore.

### Exploration

Seismic data is currently being re-processed and interpreted. Exploration drilling is expected to commence in late 2005.

exploration

# focused on realising potential

The potential remains for Regal to add to reserves through exploration drilling in Greece, Romania and Egypt.

- In Greece, Kavala has the exclusive right to explore the whole Prinos Basin which includes the Greater Kallirachi area.
- In Romania, the Company has licences to explore an area totalling 10,388km<sup>2</sup> located in the highly prospective Moldavia Platform.
- In Egypt, the Company has an exploration concession in the East Ras Budran area, Gulf of Suez.

“Based on positive seismic data re-interpretation and analysis, Kavala Oil drilled the first Kallirachi exploration well in 2004 to a depth of 2,555m and confirmed the presence of hydrocarbons.”

# 10,388 km<sup>2</sup>

The total licence area in Romania

## \$4m

Regal plans to spend \$4m on the first exploration well in Egypt

## 2,555m

Depth of first Kallirachi exploration well in Greece

## 1,000km

Approximately 1,000km of existing seismic data is being reprocessed on the Barlad Block, Romania

# realising potential

Regal is committed to increasing production in Kavala and realising the full potential of Kavala's producing assets in the medium term.



## Greece highlights

Completed the drilling of the first Kallirachi exploration well to a depth of 2,555m in January 2004.

Commenced the drilling of the second Kallirachi well in October 2004.

Increased commercial interest in Kavala in October 2004 through the investment in preference shares.

Average daily production for Kavala in 2004 was 2,761 bopd (2003: 3,061 bopd)\*

### Additional investment

In August 2004 the Company negotiated to increase its commercial interest in Kavala Oil through the investment in preference shares for €10 million cash, with the funds being used towards the Greek asset development programme.

### Production

Average daily production for Kavala Oil in 2004 was 2,761 barrels of stabilised crude oil per day (2003: 3,061 bopd) from the Prinos and Prinos North fields. All crude oil is sold to Hellenic Petroleum S.A. and the sulphur by-product is sold locally.

The 2004 average daily production level was lower than expected. This was due to mechanical, technical and operational difficulties with existing offshore facilities. The Company is reviewing the management and operational structure at Kavala Oil and is committed to realising the full potential of Kavala Oil's producing assets in the medium term.

### Development

The Prinos North field is a satellite to the Prinos field and contains unexploited areas of crude oil. Kavala Oil has produced from the Prinos North field through a horizontal well drilled from the Prinos field platform. This is now shut-in whilst the Company assesses the development options for the field.

In addition, Kavala Oil has the exclusive right to exploit and develop the Epsilon field which lies approximately 4km to the west of the Prinos field production facilities. The Epsilon field has been tested by two wells and has proven and probable reserves of 12 million barrels. The Company is currently assessing its options with regard to this

development. Preliminary findings indicate a low-cost development tied back to existing Prinos infrastructure may be appropriate.

### Exploration

Kavala Oil has the exclusive right to explore the whole Prinos Basin which includes the Greater Kallirachi area. Based on positive seismic data re-interpretation and analysis, Kavala Oil commenced drilling the first Kallirachi exploration well ('K-1 well') in late 2003. The K-1 well was successfully drilled to a depth of 2,555m in January 2004 and confirmed the presence of hydrocarbons.

Technical interpretation and analysis of the K-1 well data together with existing seismic data was performed during 2004. The results of this interpretation and analysis were used by Kavala Oil to identify the location for a second Kallirachi well ('K-2 well') which commenced drilling in October 2004.

The K-2 well was completed in 2005 with testing performed on four prospective reservoirs with light hydrocarbon shows, good reservoir pressure and porosity. Hydrocarbons were flowed to surface, however, due to low permeability, the flow rates from the K-2 well were deemed non-commercial. Further work is under way to fully understand the results of the K-2 well.

### Independent reserves audit

The Company has engaged independent reserve auditors McDaniel & Associates Consultants Ltd to estimate the remaining recoverable reserves in Kavala. The report has not been finalised, but a preliminary presentation by the reserve auditors indicates that a more conservative figure should be used to estimate its remaining recoverable reserves. Accordingly the



**Offshore operations,  
Greece.**



Company has decided to revert from 80 million barrels of recoverable reserves to the previous report issued by Troy Ikoda Ltd in 2003 that states remaining recoverable reserves of 24 million barrels of oil, which after subsequent production leaves 22 million barrels of remaining recoverable reserves.

**Future strategy**

The Company is committed to increasing production in Kavala Oil in order to generate cash to fund a larger proportion of future capital expenditure.

In addition, the Company is performing a detailed analysis of the Kallirachi well data in conjunction with seismic data before any decision is made on further exploration drilling in the area.

The Company is committed to realising the full potential of Kavala Oil's producing assets in the medium term.

**2,761 bopd**  
(2003: 3,061 bopd)\*

**\$34.8m**

Revenue 2004  
(2003: \$7.3m)\*

\*The interest in Kavala Oil S.A. was acquired on 23 October 2003 and accordingly production is only included from this date.