Regal Petroleum plc

Interim Report 2011

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

Contents

Highlights

Operations

- Cancellation of Ministry Order.
- Production restarted on 22 July 2011. For the 7 day period to 26 September 2011 production averaged 207,205 m^3/d of gas and 52 m^3/d of condensate (1,618 boepd in aggregate).
- Technical, operational and liaison activities consolidated in Ukraine under local experienced management.
- Upgrade planned for gas treatment facility to provide LPG recovery and improve plant efficiency.

Finance

- Net profit after tax of $0.6 million (June 2010: $3.8 million profit).
- Gain of $10.4 million on the disposal of Barlad Concession.
- Currently receiving gas price of $379/$Mm^3$ in Ukraine, up 48% on average price as compared with 2010.

Outlook

- Endeavouring to enhance production through a combination of well work-overs and the addition of gas compression.
- Plan to recommence drilling with the immediate objective to focus on developing B-Sands.

Chairman's Review

I am pleased to report that the main regulatory difficulties faced by Regal in Ukraine in 2010 have now been resolved during 2011. With these issues apparently behind us, we have been able to resume production and focus our attention on addressing the technical issues arising from the challenging results identified during the 2009 and 2010 drilling programme.

In May 2010, the Company received an order signed by the Minister of Environmental Protection identifying matters purportedly requiring rectification in respect of Regal's compliance with certain legislation in Ukraine relating to its operations at its Mekhediviska Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") gas and condensate fields (the "Ministry Order"). The Company unsuccessfully challenged this Ministry Order in the Ukrainian Courts and in November 2010 the Company suspended its operations and activities at its MEX-GOL and SV gas and condensate fields, pending the hearing of a further appeal.

Facing a potentially indeterminate period without revenue and without resolution to the dispute with the Ministry of Environmental Protection, Regal sought, and received, a number of approaches in relation to possible offers for the Company and entered into negotiations with several parties regarding potential corporate options. In December 2010, Energees Management Limited ("Energees"; part of the Smart Holding Group "Smart") made an initial recommended offer to acquire the entire issued, and to be issued, share capital of Regal for a cash consideration of 24 pence per share. Following a competitive process with another potential bidder, Energees increased its offer to 38 pence per share and simultaneously scaled back its original offer to a partial offer to acquire up to 70% of Regal's shares on a fully diluted basis. This increased partial offer was recommended by the Regal Board and closed on 4 March 2011, with Energees acquiring 54% of Regal's issued share capital.

Regal, with Smart as a new and strong local partner, continued to challenge the legality of the Ministry Order. On 7 July 2011, the Company filed new proceedings in the District Administrative Court of Kiev against the Ministry of Environmental Protection and the State Geological Service of Ukraine in respect of the Ministry Order. At the same time the Company made an interim application in the new proceedings seeking a suspension of the Ministry Order, which was granted on 8 July 2011. This ruling allowed the Company to implement plans to restart production at its MEX-GOL and SV fields. Regal subsequently received a written decision, dated 18 July 2011, of the District Administrative Court of Kiev in the new proceedings, ruling that the Ministry Order was unlawfully issued and ordering its cancellation. This ruling came into force on 6 August 2011. Production was restarted on 22 July 2011.

The Court's decision in favour of the Company to lift the licence suspension has enabled the resumption of all our operational activities in Ukraine. The resulting production and revenues are not reflected in these Interim Results as these events commenced after the period end of 30 June 2011, although an update on the latest production is provided below.

With Smart's support through its representation on the Board of Regal, and with the addition of key local staff with strong technical expertise and resources, we have consolidated and located all our technical, operational and liaison activities in Ukraine, enabling us to manage our current production activities and carry out future field operations in a more cost effective manner.

Operations

Ukraine

As a result of the suspension of operations, the Company's Ukrainian gas and condensate production was shut-in for the entire six months covered by this Interim Report. Production resumed on 22 July 2011 and for the month of August 2011 average production was 198,665 m^3/d of gas and 42 m^3/d of condensate (1,502 boepd in aggregate). For the seven day period to 26 September 2011 production averaged 207,205 m^3/d of gas and 52 m^3/d of condensate (1,618 boepd in aggregate). This compares to an average of 253,706 m^3/d of gas and 52 m^3/d of condensate (1,910 boepd in aggregate) for the seven days prior to the suspension of operations in the MEX-GOL and SV fields on 17 November 2010. We continue to work on the current wells to improve their daily production and we are reviewing what further stimulation techniques may be beneficial. With the field having been shut-in for eight months there is no certainty that the wells will fully recover to their past performance levels.

Egypt

In January 2011, Regal entered into a conditional sale and purchase agreement with Apache East Ras Budran Corporation LDC ("Apache") in respect of its 25% non-operated interest in the East Ras Budran Concession, Egypt. Apache was the operator of the concession and held the remaining 75% interest.

The consideration payable under the sale and purchase agreement was $1,100,000 which, following working capital adjustments under the joint venture agreement between Regal and Apache, resulted in net receipts to Regal of $640,344. The sale and purchase agreement was subject to Egyptian Government approval, which took some months to obtain following the political events in Egypt in the Spring of 2011. The transaction was successfully completed on 7 July 2011.

Romania

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

The Suceava partnership, in which Regal holds a non-operated 50% interest, drilled well Climauti-1 in June 2010. This well was tied into the Bilca gas plant and came on stream on 4 March 2011. The average production from this well for the first two weeks of September 2011 was 16,246 m^3/d.

Board Changes

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

Harry Verkuil (Chief Operating Officer) stepped down from the Board on 21 April 2011 and Robert Wilde (Finance Director) steps down from the Board following the release of these Interim Results. I would like to record my appreciation to both Harry and Robert for their support and

Chairman's Review continued

significant contribution to the Company over the last three years.

Effective immediately, Denis Rudev is appointed as Regal's Finance Director. I very much welcome this appointment and look forward to working closely with Denis in the future.

Outlook

At the time of its offer to Regal shareholders, Energees recognised that in order to develop Regal's core business and resolve the operational challenges associated with the Company's Ukrainian licence interests, investment of further capital would be required.

Energees' rationale for acquiring its interest in Regal is driven by the compelling dynamics of the Ukrainian gas market. Approximately two thirds of domestic gas demand is currently satisfied by Russian imports and the country operates an attractive fiscal structure (relatively low corporate tax and hydrocarbon extraction royalties) designed to encourage hydrocarbon exploration and production. The Ukrainian Government has stated its intention to reduce the purchase tax rate from the current rate of 20% to 17% and corporate income tax rate from the current rate of 23% to 16% by 2014.

The Company implemented a strategic technical review following the disappointing drilling results in 2010. Using the experience gained, work has already commenced with the re-starting of our existing wells, endeavouring to enhance production, particularly from those wells that failed to fulfil earlier expectations. This will initially be done through a combination of well work-overs and the addition of gas compression. The application of alternative perforation techniques and well stimulation, including fraccing, is also being considered. In addition, the Company is planning to recommence drilling with the intention that any such new wells will target the recognised Visean reservoirs ("B-Sands") rather than stepping out further from existing wells or targeting deeper objectives. This will not exclude further appraisal of the deeper Tournasian sequences ("T-Sands") in the longer term, but our more immediate objectives are to focus on developing the B-Sands.

Drilling the shallower B-Sand wells will generally not require the size of rigs that had been deployed by Regal over the last three years and which were commissioned to provide capability to penetrate the deeper T-Sands. Although the smaller rigs will take longer to reach target depth, the expected cost of each well will be significantly reduced, offering considerable savings in capital expenditure. Additional investment is also planned to upgrade the gas treatment facility to provide for LPG recovery and to enhance the plant's overall efficiency. It is anticipated that much of our immediate capital requirements will be sourced from operational cash. However, if necessary, Energees Investments Limited, the principal holding company of Smart, has indicated that it may support further investment directly, such as through shareholder loans. Given the short period in which production has recommenced, and recognising the evolving nature of our operations currently being carried out to improve daily production, no firm decisions or work commitments will be made requiring major capital expenditures until we have a better understanding of the MEX-GOL and SV reservoir performance.

Finance Review

Revenue of \$0.2 million for the six months ending 30 June 2011 is entirely derived from Regal's share of gas sales from the Company's Suceava licence (Climauti field) in Romania, which came into production in March 2011. There has been no production revenue in Ukraine for the period, given that the suspension of production on the MEX-GOL and SV fields was not lifted until after the period end. However, production in Ukraine did resume in July 2011 and the Company can now benefit from the higher gas price that was introduced in July 2011. The Company has renegotiated the terms of its existing gas sales agreement with OJSC Ukrzakordongeologia, resulting in a price increase of approximately 2.78% compared with the previous pricing arrangements. Regal currently receives around \$379/Mm^3, representing a 48% increase in the average price received for its gas sales compared with 2010, reflecting an improvement in the market generally as well as the amended terms agreed with OJSC Ukrzakordongeologia.

The majority of the \$1.7 million cost of sales comprises direct labour costs and insurances whilst keeping the Ukrainian cost base to a minimum pending resumption of activities.

Administrative expenses of \$10.1 million for the period to 30 June 2011 are \$2.8 million higher than for the same period last year (\$7.3 million) as these include transaction costs of \$4.3 million (mostly advisers' fees) as a result of the corporate activity and competitive offer process culminating in Energees' successful increased partial offer. Underlying staff costs and overheads were reduced by 21% when compared with the same period last year.

Although Regal has recorded a loss of \$10.2 million on its continuing operations for the six months to 30 June 2011, this entirely excludes any production revenue from the MEX-GOL and SV fields in Ukraine, which has now been restored, post period end. As at the date of this report, both operating cash and operating profit, since the recommencement of production on 22 July 2011, have been positive. The Company recorded a net profit after tax for the six month period of \$0.6 million, helped by a gain of \$10.4 million (net of taxes and other disposal costs) made on the disposal of its Barlad Concession to Chevron, which completed in February 2011.

Cash held as at 27 September 2011 of \$17.6 million reflects renewed operational cash generated following the resumption of production, together with favourable resolutions to other issues since the balance sheet date.

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

Office Relocation

Regal announces that it has changed its registered office to 16 Old Queen Street, London, SW1H 9HP.

Finance Review continued

Principal Risks and Uncertainties

For the remainder of the year and beyond, Regal faces a number of risks and uncertainties. Specific challenges include:

Risks relating to Ukraine, Romania and Egypt

Emerging markets are subject to greater risks than those that are more developed including, in some cases, significant legal, economic and political risks. Such economies may also be subject to rapid change and the Company will need to adapt and alter itself, as needed, relatively quickly.

The Ukrainian Government is keen to develop the country's domestic production of hydrocarbons since Ukraine imports the majority of its gas needs from Russia. Whilst this should provide a favourable environment for the growth of Regal's operations, as experienced in 2010 and earlier this year there are significant risks to carrying out business in the country. It is hoped the involvement of Energees, as a major shareholder with extensive experience in Ukraine, will help mitigate such risks in the future. The Company endeavours to ensure compliance with all licence commitments via Company procedures and controls or, where this is not immediately feasible for practical or logistical considerations, seeks to enter into dialogue with the relevant Government bodies with a view to agreeing a reasonable timeframe for delivery or an alternative, mutually agreeable course of action.

Regal's activities in Romania are managed by a local national with extensive experience of working in the oil and gas sector. With the disposal of its Barlad Concession, the Company has limited continuing operations in Romania.

Following the completion of the sale of its East Ras Budran asset to Apache in July 2011 the Company does not believe it will have future exposure in Egypt.

Production risks

Producing gas and condensate reservoirs are generally characterised by declining production rates that vary depending upon reservoir characteristics and other factors. Any future gas and condensate reserves of the Company, production and, therefore, the Company's cash flow and income are highly dependent on the Company's success in efficiently developing and exploiting any reserves and finding or acquiring additional reserves. The Company may not be able to develop, find or acquire reserves at acceptable costs. The experience gained from drilling undertaken to date highlights such risk profile as Regal targets the appraisal of these hydrocarbons.

Liquidity, cash flow and going concern risk

The Company does not currently have any outstanding loans. When in production in Ukraine, most of the Company's gas is paid for monthly in advance. Trade receivables and risk of non-payment are, therefore, not particularly significant at present. Internal financial projections are regularly made based on the latest estimates available and various scenarios to assess the robustness of the liquidity of the Company are run. The Company currently holds sufficient cash for the anticipated short to medium term needs of the business and believes, based on its latest internal projections, that it will be able to meet its obligations for at least 12 months from the date of this Interim Report.

Risks relating to further development and operation of the gas fields in Ukraine

The planned development of the Ukrainian fields is susceptible to appraisal and development risk. This could include, but is not restricted to, delays in delivery of equipment into Ukraine; failure of key equipment; lower than expected production from the wells as they are brought on-stream; problematic wells; or complex geology that is difficult to drill or interpret. The generation of significant operational cash is dependent on the successful delivery and completion of the development of the fields. Furthermore, the optimisation of all of the Company's assets is dependent on maintaining constructive relationships between all of our business stakeholders.

Condensed Consolidated Income Statement

	Notes	**6 months 30 Jun 11 (unaudited) $'000**	6 months 30 Jun 10 (unaudited) $'000	12 months 31 Dec 10 (audited) $'000
Continuing operations				
Revenue	2	**204**	15,942	29,033
Cost of sales		**(1,747)**	(5,247)	(13,454)
Gross (loss)/profit		**(1,543)**	10,695	15,579
Share-based charge		**(780)**	(1,868)	(2,687)
Other administrative expenses	3	**(9,356)**	(5,374)	(30,310)
Total administrative expenses		**(10,136)**	(7,242)	(32,997)
Other operating expenses: impairment of intangible fixed assets		**—**	—	(10,928)
Operating (loss)/profit		**(11,679)**	3,453	(28,346)
Investment revenue		**43**	268	414
Finance income		**1,072**	—	—
Finance costs		**(142)**	(99)	(4,445)
Other gains and losses: foreign exchange		**652**	(4,512)	(2,326)
Other gains and losses: loss on disposal of inventory		**(162)**	—	—
Loss on ordinary activities before taxation		**(10,216)**	(890)	(34,703)
Income tax credit/(expense)	4	**30**	4,782	(1,317)
(Loss)/profit for the period from continuing operations		**(10,186)**	3,892	(36,020)
Discontinued operations				
Profit/(loss) for the period from discontinued operations	6	**10,789**	(48)	(4,556)
Profit/(loss) for the period		**603**	3,844	(40,576)
(Loss)/profit per ordinary share (cents) from continuing operations				
Basic and diluted	5	**(3.2)c**	1.2c	(11.3)c
Profit/(loss) per ordinary share (cents) from total operations				
Basic and diluted	5	**0.2c**	1.2c	(12.8)c

Condensed Consolidated Statement of Comprehensive Income

	6 months 30 Jun 11 (unaudited) $'000	6 months 30 Jun 10 (unaudited) $'000	12 months 31 Dec 10 (audited) $'000
Equity – foreign currency translation	**106**	(3,992)	(1,740)
Net income/(expense) recognised directly in equity	**106**	(3,992)	(1,740)
Profit/(loss) for the period	**603**	3,844	(40,576)
Total comprehensive income/(loss) for the period	**709**	(148)	(42,316)

Condensed Consolidated Balance Sheet

	Notes	**30 Jun 11 (unaudited) $'000**	30 Jun 10 (unaudited) $'000	31 Dec 10 (audited) $'000
Assets				
Non-current assets				
Intangible assets		**1,316**	24,411	2,347
Property, plant and equipment		**228,330**	199,468	229,675
Trade and other receivables	7	**15,358**	7,805	18,112
		245,004	231,684	250,134
Current assets				
Inventories		**10,091**	12,727	9,689
Assets classified as held for sale	6	**1,214**	—	11,202
Trade and other receivables	7	**15,809**	17,743	6,376
Other financial assets		**—**	—	1,547
Cash and cash equivalents		**9,489**	64,296	23,265
		36,603	94,766	52,079
Total assets		**281,607**	326,450	302,213
Liabilities				
Current liabilities				
Current tax liabilities		**—**	(585)	—
Trade and other payables		**(2,192)**	(14,702)	(24,982)
Liabilities directly associated with assets classified as held for sale	6	**(581)**	—	(125)
		(2,773)	(15,287)	(25,107)
Net current assets		**33,830**	79,479	26,972
Non-current liabilities				
Trade and other payables		**(14)**	(32)	(21)
Provisions		**(6,014)**	(4,927)	(5,885)
Deferred tax	4	**(6,279)**	—	(6,345)
		(12,307)	(4,959)	(12,251)
Total liabilities		**(15,080)**	(20,246)	(37,358)
Net assets		**266,527**	306,204	264,855
Equity				
Called up share capital		**28,115**	27,932	27,932
Share premium account		**555,090**	555,090	555,090
Other reserves		**4,547**	13,923	15,617
Retained deficit		**(321,225)**	(290,741)	(333,784)
Total equity		**266,527**	306,204	264,855

Condensed Consolidated Statement of Changes in Equity

	Called up share capital $'000	Share premium account $'000	Share option reserve $'000	Foreign exchange reserve $'000	Other reserves $'000	Retained deficit $'000	Total $'000
As at 1 January 2010 (audited)	27,710	555,090	17,591	1,908	4,273	(302,310)	304,262
Profit for the period	—	—	—	—	—	3,844	3,844
Current period IFRS 2 charge	—	—	1,868	—	—	—	1,868
Share options exercised	222	—	(7,725)	—	—	7,725	222
Exchange differences	—	—	—	(3,992)	—	—	(3,992)
As at 1 July 2010 (unaudited)	27,932	555,090	11,734	(2,084)	4,273	(290,741)	306,204
Changes in equity	—	—	(558)	2,252	—	(43,043)	(41,349)
As at 1 January 2011 (audited)	**27,932**	**555,090**	**11,176**	**168**	**4,273**	**(333,784)**	**264,855**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**603**	**603**
Current period IFRS 2 charge	**—**	**—**	**780**	**—**	**—**	**—**	**780**
Transfer for options exercised or expired	**183**	**—**	**(11,956)***	**—**	**—**	**11,956**	**183**
Exchange differences	**—**	**—**	**—**	**106**	**—**	**—**	**106**
As at 30 June 2011 (unaudited)	**28,115**	**555,090**	**—**	**274**	**4,273**	**(321,225)**	**266,527**

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

Condensed Consolidated Cash Flow Statement

	Notes	**6 months 30 Jun 11 (unaudited) $'000**	6 months 30 Jun 10 (unaudited) $'000	12 months 31 Dec 10 (audited) $'000
Operating activities				
Cash (used in)/from operations	8	**(34,497)**	7,912	14,348
Interest paid		**(17)**	(99)	(38)
Interest received		**43**	—	—
Taxation paid		**(28)**	(503)	(1,285)
Net cash (used in)/from operating activities		**(34,499)**	7,310	13,025
Investing activities				
Proceeds from sale of discontinued operations	6	**22,651**	—	—
Purchase tax payment relating to sale of discontinued operations	6	**(3,219)**	—	—
Proceeds from sale of inventory		**51**	—	—
Purchase of property, plant and equipment		**(1,112)**	(41,189)	(78,436)
Increase in related purchase tax receivable		**(142)**	(8,313)	(11,192)
Purchase of intangible assets		**(7)**	(1,404)	(4,447)
Purchase of materials inventory		**—**	(6,889)	(11,151)
Proceeds from sale of property, plant and equipment		**—**	—	1
Net cash provided by/(used in) investing activities		**18,222**	(57,795)	(105,225)
Financing activities				
Funds received in connection with share options		**183**	222	222
Interest received on surplus funds from share issue		**—**	250	420
Decrease/(increase) in other financial assets		**1,547**	—	(1,547)
Net cash from financing activities		**1,730**	472	(905)
Net decrease in cash and cash equivalents		**(14,547)**	(50,013)	(93,105)
Cash and cash equivalents at beginning of period		**23,265**	118,592	118,592
Effect of foreign exchange rate changes		**771**	(4,283)	(2,222)
Cash and cash equivalents at end of period		**9,489**	64,296	23,265

Notes to the Condensed Consolidated Financial Statements

1. Basis of preparation

The interim financial report has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'. The accounting policies and methods of computation used in the interim report are consistent with those used in the Group 2010 annual report and accounts for the year ended 31 December 2010.

For the reasons outlined in the "Liquidity, cashflow and going concern risk" section of the Finance Review, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis has been adopted in preparing the Interim Report.

The interim financial information for the six months ended 30 June 2011 and 30 June 2010 is unaudited and does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The Auditor has carried out a review of the interim financial information for the period ended 30 June 2011 and their report is shown on page 22.

The information for the year ended 31 December 2010 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006, but has been derived from those accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The Auditor's report on those accounts was not qualified, and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006, but did contain an emphasis of matter in respect of the possible outcome of legal proceedings in relation to the Group's licences in Ukraine, following receipt of the Ministry Order described in note 9 which required a suspension of operations in Ukraine. As described in note 9, the District Administrative Court of Kiev has subsequently made a ruling, dated 18 July 2011, that the Ministry Order was unlawfully issued and ordering its cancellation. This ruling came into force on 6 August 2011 and production has now restarted.

2. Segment information

The Group's only class of business activity is oil and gas exploration, development and production. The Group's primary operations are located in Ukraine and Romania with its head office in the United Kingdom. These geographical segments are the basis on which the Group reports its segment information. There are no inter-segment sales within the Group and all products are sold in the geographical region within which they are produced. The discontinued operations column below comprises of the Group's East Ras Budran Concession in Egypt and the Barlad Concession in Romania (see note 6).

Notes to the Condensed Consolidated Financial Statements continued

2. Segment information continued

6 months to 30 June 11 (unaudited)

	Ukraine $'000	United Kingdom $'000	Romania $'000	Total continuing operations $'000	Discontinued operations* $'000	Total $'000
Gas sales	—	—	204	204	—	204
Condensate sales	—	—	—	—	—	—
Total sales (incl. sales to third parties)	—	—	204	204	—	204
Segment result	(3,619)	(7,020)	(128)	(10,767)	(345)	(11,112)
Depreciation and amortisation				(132)	—	(132)
Share-based charge				(780)	—	(780)
Operating loss				(11,679)	(345)	(12,024)
Segment assets	258,254	20,221	1,918	280,393	1,214	281,607
Capital additions	146	14	198	358	7	365

* Operating losses of $345,000 for discontinued operations, comprises losses of $719,000 associated with the Barlad Concession and an operating profit of $374,000 in relation to the East Ras Budran Concession in Egypt. All segment assets and capital additions are in relation to East Ras Budran.

2. Segment information continued

6 months to 30 June 10 (unaudited)

	Ukraine $'000	United Kingdom $'000	Romania $'000	Total continuing operations $'000	Discontinued operations* $'000	Total $'000
Gas sales	11,446	—	—	—	—	11,446
Condensate sales	4,496	—	—	—	—	4,496
Total sales (incl. sales to third parties)	15,942	—	—	—	—	15,942
Segment result	10,929	(2,836)	(116)	7,977	(48)	7,929
Depreciation and amortisation				(2,656)	—	(2,656)
Share-based charge				(1,868)	—	(1,868)
Operating profit/(loss)				3,453	(48)	3,405
Segment assets	237,794	63,902	8,177	309,873	16,577	326,450
Capital additions	50,499	117	688	51,304	460	51,764

* All operating costs associated with discontinued operations relate to the Group's East Ras Budran Concession in Egypt. Segment assets of $5,435,000 and capital additions of $35,000 relate to East Ras Budran, and segment assets of $11,142,000 and capital additions of $425,000 relate to Barlad.

Notes to the Condensed Consolidated Financial Statements continued

2. Segment information continued

12 months to 31 December 10 (audited)

	Ukraine $'000	United Kingdom $'000	Romania $'000	Total continuing operations $'000	Discontinued operations* $'000	Total $'000
Gas sales	21,086	—	—	21,086	—	21,086
Condensate sales	7,947	—	—	7,947	—	7,947
Total sales (incl. sales to third parties)	29,033	—	—	29,033	—	29,033
Impairment loss	—	—	(10,928)	(10,928)	(4,376)	(15,304)
Segment result	8,819	(18,491)**	(11,210)	(20,882)	(4,556)	(25,438)
Depreciation and amortisation				(4,777)	—	(4,777)
Share-based charge				(2,687)	—	(2,687)
Operating loss				(28,346)	(4,556)	(32,902)
Segment assets	260,602	26,992	2,312	289,906	12,307	302,213
Capital additions	82,793	117	1,071	83,981	2,491	86,472

* All operating costs associated with discontinued operations relate to the Group's East Ras Budran Concession in Egypt. Segment assets of $1,105,000 and capital additions of $82,000 relate to East Ras Budran, and segment assets of $11,202,000 and capital additions of $2,409,000 relate to Barlad.

** Including $11.9 million to release the Company from obligations and liabilities between Saipem and Regal (see note 3).

3. Other administrative expenses

Included within other administrative expenses for the period ended 30 June 2011, are transaction costs of $4,266,000 principally relating to advisers' fees as a result of the successful partial acquisition of the Company by Energees Management Limited in March 2011. Other administrative expenses for the year ended December 2010 includes $18,663,000 contract settlement charges with regard to the drilling rigs contracted from Saipem.

4. Taxation

The overall Income Statement charge for taxation for the period was $1,986,000 (30 June 2010: credit of $4,782,000) which comprises a deferred taxation credit of $66,000 (30 June 2010: $5,892,000) and current income tax of $2,052,000 (30 June 2010: $1,110,000). Of the total balance, $2,016,000 arose in respect of the Group's discontinued operations (see note 6).

The deferred tax credits for the current and prior periods relate to temporary differences arising on the Group's Ukrainian fixed assets. The movement in the period is as follows:

	6 months 30 Jun 11 (unaudited) $'000	6 months 30 Jun 10 (unaudited) $'000	12 months 31 Dec 10 (audited) $'000
At beginning of period	**6,345**	5,892	5,892
Charge/(credited) to income statement			
— Current year	**48**	(2,615)	2,202
— Prior year	**(114)**	(3,277)	(1,749)
At end of period	**6,279**	—	6,345

The Directors do not consider it appropriate to recognise deferred tax assets, resulting from accumulated tax losses, to reflect the potential benefit from temporary differences as at 30 June 2011 as there is insufficient evidence of future taxable profits. At 30 June 2011, and in gross terms, there were unrecognised deferred tax assets in respect of estimated UK tax losses carried forward of up to $141 million (31 December 2010: $162 million).

5. Profit per ordinary share

The calculation of basic profit per ordinary share has been based on the profit for the period and 319,721,924 (2010: 318,046,295) ordinary shares, being the average number of shares in issue for the periods to 30 June 2011 and 30 June 2010 respectively. The impact of potentially dilutive instruments (share options) is either insignificant or, for the periods for which there was a loss, anti-dilutive.

Notes to the Condensed Consolidated Financial Statements continued

6. Discontinued operations

On 27 January 2011, the Company entered into a conditional sale and purchase agreement with Apache East Ras Budran Corporation LDC ("Apache") in respect of its 25% non-operated interest in the East Ras Budran Concession (the "Concession") in Egypt. The consideration payable under the sale and purchase agreement was $1,100,000, subject to working capital adjustments under the existing joint venture between Regal and Apache, which resulted in net receipts to Regal of $640,344 at closing of the sale on 7 July 2011. As at 30 June 2011, the asset is classified as held for sale on the balance sheet.

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

The results of these discontinued operations were as follows:

			6 months 30 Jun 11 (unaudited)	6 months 30 Jun 10 (unaudited)	12 months 31 Dec 10 (audited)
	Barlad (Romania)* $'000	East Ras Budran (Egypt) $'000	**Total $'000**	East Ras Budran (Egypt) $'000	East Ras Budran (Egypt) $'000
(Expenses)/income	(719)	374	**(345)**	(48)	(4,556)
Attributable tax expense	—	—	**—**	—	—
Profit on disposal of discontinued operations	13,150	—	**13,150**	—	—
Attributable tax expense	(2,016)	—	**(2,016)**	—	—
Net profit attributable to discontinued operations	10,415	374	**10,789**	(48)	(4,556)

* There are no results directly attributable to the Barlad Concession for the comparative 30 June 2010 and 31 December 2010 periods.

6. Discontinued operations continued

Cash flows for the periods are summarised below:

	6 months 30 Jun 11 (unaudited) $'000	6 months 30 Jun 10 (unaudited) $'000	12 months 31 Dec 10 (audited) $'000
East Ras Budran (Egypt)			
Operating activities	**(7)**	(26)	(29)
Investing activities	**(6)**	(12)	(39)
	(13)	(38)	(68)

	6 months 30 Jun 11 (unaudited) $'000	6 months 30 Jun 10 (unaudited) $'000	12 months 31 Dec 10 (audited) $'000
Barlad (Romania)			
Operating activities	**(719)**	—	—
Investing activities			
— net proceeds from sale of discontinued operations	**22,651**	—	—
— other	**(3,219)**	(932)	(2,922)
	18,713	(932)	(2,922)

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

	30 Jun 11 (unaudited) East Ras Budran (Egypt) $'000	31 Dec 10 (audited) Barlad (Romania) $'000
Intangible exploration assets	**1,100**	11,202
Inventory	**114**	—
Total assets classified as held for sale	**1,214**	11,202

	30 Jun 11 (unaudited) East Ras Budran (Egypt) $'000	31 Dec 10 (audited) Barlad (Romania) $'000
Trade and other payables	**(581)**	(125)
Total liabilities associated with assets classified as held for sale	**(581)**	(125)

Notes to the Condensed Consolidated Financial Statements continued

7. Trade and other receivables

Included within trade and other receivables is purchase tax receivable on capital expenditure and other costs in Ukraine of $22,117,000 (2010: $20,724,000), which is expected to be recovered via an offset against purchase tax payable on future sales in that country. Of this balance, purchase tax receivable expected to be recoverable within one year has been classified as current, and amounts to $6,759,000 (2010: $13,970,000). Additionally, purchase tax receivable relating to the sale of the Barlad Concession of $3,200,000 (2010: $nil) is included within trade and other receivables. This amount is expected to be recovered within one year.

8. Reconciliation of operating loss to operating cash flow

	6 months 30 Jun 11 (unaudited) $'000	6 months 30 Jun 10 (unaudited) $'000	12 months 31 Dec 10 (audited) $'000
Operating (loss)/profit from continuing operations	**(11,679)**	3,453	(28,346)
Operating loss from discontinued operations	**(345)**	(48)	(4,556)
Depreciation, amortisation and impairment charges	**132**	2,656	20,081
Write down of inventory	**—**	—	3,667
Movement in provisions	**4**	1	(102)
Share-based charge	**780**	1,868	2,687
Decrease/(increase) in condensate stock	**(206)**	22	(44)
(Increase)/decrease in debtors	**(2,085)**	206	3,795
(Decrease)/increase in creditors	**(21,098)***	(246)	17,166
Net cash (used in)/generated from operations	**(34,497)**	7,912	14,348

* $20.0 million of the movement relates to the settlement in 2011 of the Saipem creditor at 31 December 2010 (see note 3).

9. Subsequent events

On 27 January 2011, the Company entered into a conditional sale and purchase agreement with Apache East Ras Budran Corporation LDC ("Apache") in respect of its 25% non-operated interest in the East Ras Budran Concession (the "Concession") in Egypt. The consideration payable under the sale and purchase agreement was $1,100,000, subject to working capital adjustments under the existing joint venture between Regal and Apache, which resulted in net receipts to Regal of $640,344 at closing of the sale on 7 July 2011.

As previously announced, on 21 May 2010, the Company received an order, dated 30 March 2010, signed by the Minister of Environmental Protection identifying certain matters requiring rectification in relation to Regal's compliance with certain legislation in Ukraine relating to its operations at its Mekhediviska Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") gas and condensate fields, and requiring a suspension of operations whilst such matters were rectified (the "Ministry Order"). The District Administrative Court of Kiev made a ruling dated 18 July 2011 that the Ministry Order was unlawfully issued and ordering its cancellation. This ruling was capable of being appealed during a 10 day period from 26 July 2011, failing which the decision would come into force on 6 August 2011. As no appeal was filed, the ruling came into force on that date. Production restarted on the MEX-GOL and SV fields on 22 July 2011.

Independent Review Report to Regal Petroleum plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 9. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
27 September 2011

Notes

Notes

Advisors

Company Secretary and Registered Office
C Phillips
16 Old Queen Street
London
SW1H 9HP
United Kingdom

Auditors
Deloitte LLP
2 New Street Square
London EC4A 3BZ
United Kingdom

Bankers
Bank of Scotland Corporate
London Chief Office
155 Bishopsgate
London EC2M 3YB
United Kingdom

Solicitors
Pinsent Masons LLP
30 Crown Place
London EC2A 4ES
United Kingdom

Nominated Advisor
Strand Hanson Limited
26 Mount Row
London W1K 3SQ
United Kingdom

Joint Broker
Bank of America Merrill Lynch
Financial Centre
2 King Edward Street
London EC1A 1HQ
United Kingdom

Joint Broker
RBS Hoare Govett
250 Bishopsgate
London EC2M 4AA
United Kingdom

Share Registry
Computershare Investors Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZY
United Kingdom

PR Advisors
Citigate Dewe Rogerson
3 London Wall Buildings
London EC2M 5SY
United Kingdom

Glossary

m^3/d
cubic metres per day

Mm^3
thousand cubic metres

boepd
barrels of oil equivalent per day

LPG
Liquefied Petroleum Gas

$
United States Dollar

Conversion factors (SPE)

100,000m^3 gas = 624 boe
1m^3 liquid = 6.29 barrels liquid

Created by
Jonesandpalmer
www.jonesandpalmer.co.uk
empowering corporate communications

Regal Petroleum plc
16 Old Queen Street
London
SW1H 9HP
United Kingdom
T: +44 (0)20 3427 9550
F: +44 (0)20 3427 9551

www.regalpetroleum.com