



# Regal Petroleum

Interim Report 2012

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

## Inside this Report

### Our Business

Chairman's Review	<b>02</b>
Finance Review	<b>04</b>

### Financials

Condensed Consolidated Income Statement	<b>07</b>
Condensed Consolidated Statement of Comprehensive Income	<b>08</b>
Condensed Consolidated Balance Sheet	<b>09</b>
Condensed Consolidated Statement of Changes in Equity	<b>10</b>
Condensed Consolidated Cash Flow Statement	<b>11</b>
Notes to the Condensed Consolidated Financial Statements	<b>12</b>
Independent Review Report	<b>22</b>
Advisors/Glossary	<b>IBC</b>

# Highlights

## Operations

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Average production over the six month period to 30 June 2012 at 214,470 m<sup>3</sup>/d of gas and 47 m<sup>3</sup>/d of condensate (1,636 boepd in aggregate)

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

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Work-over operations on MEX-3 commencing shortly

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Sale of Romanian subsidiary completed in July 2012

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## Finance

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Profit from continuing operations of \$6.7 million (1H 2011: \$10.1 million loss)

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Realised average gas and condensate prices in Ukraine of \$422/Mm<sup>3</sup> and \$104/bbl respectively

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Cash as at 30 June 2012 of \$24.2 million (31 December 2011: \$19.7 million), with cash balance as at 24 September 2012 of \$30.3 million

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## Outlook

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Continued focus on implementation of 2012 investment programme in Ukraine, including drilling of two wells, work-over of three existing wells and upgrades to processing facilities

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## Chairman's Review

I am pleased to report the Company operated profitably during the first six months of 2012. This is attributable to ongoing production in Ukraine, together with the continued benefit of favourable gas prices, the effects of which are reflected in these interim results.

Following completion of the sale of the Company's Romanian subsidiary in July 2012, our operational activities are now focused entirely on our 100% owned and operated Mekhediviska-Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") gas and condensate fields in Ukraine.

The cash generated from the sale of our gas and condensate production is being used to fund our 2012 capital investment programme, which includes the ongoing drilling of two wells, the work-over of three existing wells and upgrades to the Company's gas processing facilities.

I am also pleased to be able to report we continued to operate safely during the period.

### Operations

#### *Ukraine*

Production for the first six months of the year averaged 214,470 m<sup>3</sup>/d of gas and 47 m<sup>3</sup>/d of condensate (1,636 boepd in aggregate). There was no comparative production for the first half of 2011 due to the suspension of production on the MEX-GOL and SV fields which was lifted in July 2011. Production from 1 July 2012 to 23 September 2012 averaged 184,741 m<sup>3</sup>/d of gas and 42 m<sup>3</sup>/d of condensate (1,418 boepd in aggregate). Ongoing maintenance work on producing wells continues in order to optimise daily production.

Two new wells were spudded in the first half of 2012 and drilling is ongoing. Both wells are targeting the Visean reservoirs ("B-Sands") and are expected to enhance our understanding of the MEX-GOL and SV reservoir performance. These wells are being drilled by local Ukrainian drilling contractors, with the Ukrainian drilling rigs being supplemented by the use of selected western technology and equipment designed to improve drilling operations.

Well SV-53 was spudded on 28 February 2012 and is currently drilling at a depth of 4,968 metres. The well is currently expected to reach its target depth of 5,450 metres in the fourth quarter of 2012 and to be completed during the first quarter of 2013. Well MEX-105 was spudded on 17 April 2012 and has a target depth of 5,250 metres, which is expected to be reached in the first quarter of 2013, and to be completed during the second quarter of 2013. The well is currently drilling at a depth of 4,320 metres.

As announced on 18 June 2012, the MEX-3 well suffered water ingress which caused production to cease from the well. As a result, the production tubing was recovered in order to investigate the cause of the water ingress, and significant corrosion on the production tubing was noted. A work-over rig has been commissioned and operations are expected to commence shortly to replace the production tubing in an attempt to eliminate the ingress of water and, if successful, to bring the well back on production. Upon completion of the work-over on well MEX-3, further planned work-over operations will commence on well GOL-1.

The upgrade of methanol equipment at two existing wells is progressing, with equipment currently being procured. In addition, equipment is being acquired for the upgrade of the Company's gas treatment facility. This upgrade is over two phases and is designed to enhance the facility's overall efficiency and incorporate compression equipment. It is anticipated that this will provide financial benefits as well as Health, Safety, Environment and Security ("HSES") improvements.

Additional upgrade work to provide for LPG recovery has commenced with the procurement of a condensate stabiliser, currently being designed and pre-fabricated in Canada. This upgrade is expected to reduce hydrocarbon losses at the gas processing facility and improve the quality of production, which will also provide additional revenue.

### *Romania*

As previously announced on 31 May 2012, the Company entered into a conditional sale and purchase agreement with Zeta Petroleum plc ("Zeta") for the sale of the Company's wholly owned subsidiary, Regal Petroleum Romania SRL, which holds a 50% interest in the Suceava concession in Romania. Completion of this transaction occurred on 31 July 2012.

The consideration payable under the sale agreement was \$650,000, subject to certain adjustments principally relating to the apportionment between Regal and Zeta of joint venture balances relating to the Suceava concession. Following these adjustments, the net amount paid to Regal on completion was approximately \$915,000.

### **Keith Henry**

Chairman

## Finance Review

The Company's profit from continuing operations for the period was \$6.7 million (1H 2011: \$10.1 million loss).

Revenue from continuing operations, derived from the sale of the Company's Ukrainian gas and condensate production, was \$22.0 million. No revenue in Ukraine was recorded during the first half of 2011 due to the suspension of production on the MEX-GOL and SV fields which was lifted in July 2011.

For the first six months of the year, the average realised gas and condensate prices were \$422/Mm<sup>3</sup> and \$104/bbl respectively.

Cost of sales of \$9.0 million for the period to 30 June 2012 are \$7.5 million higher than the comparative period, principally reflecting royalty and depreciation charges which were not present in the first half of 2011 due to the suspension of production. It is anticipated that from 1 January 2013, due to legislative changes in Ukraine, the existing royalty and subsoil tax regime relating to hydrocarbon production will be replaced by a single subsoil tax. The overall effect of these changes mean that production tax charges will increase for the Company. This will to some extent be offset by the anticipated decrease in corporate income tax rates from 21% to 19% for 2013, decreasing further to 16% from 2014.

Administrative expenses of \$4.2 million are significantly lower than the \$9.2 million incurred in the first half of 2011. This is mainly attributable to corporate transaction costs of \$4.3 million included in the comparative period, which were incurred in respect of the competitive takeover process for the acquisition of the Company during the first half 2011.

Other finance income for the period of \$1.8 million (1H 2011: \$1.1 million) primarily represents the unwinding of the discount on long-term purchase tax balances recoverable from the Ukrainian Government.

The tax charge for the period of \$3.7 million (1H 2011: \$2.0 million) is primarily comprised of a current tax expense of \$1.6 million (1H 2011: \$2.1 million) representing taxes incurred in the Group's Ukrainian companies and a deferred tax charge of \$2.1 million (1H 2011: \$0.1 million credit). The \$2.0 million incurred in the first half of 2011 principally reflects tax paid on the disposal of the Company's Barlad asset in Romania. This amount is included within discontinued operations for that period.

Profit from discontinued operations is attributable to the Company's wholly-owned Romanian subsidiary, Regal Petroleum Romania SRL, the sale of which completed in July 2012.

Cash held as at 30 June 2012 of \$24.2 million (30 June 2011: \$9.5 million, 31 December 2011: \$19.7 million), principally reflects the positive cash generated from operations since the resumption of production in July 2011. Cash from operations have funded the capital investment during the first half of this year.

The Company's cash balance, as at 24 September 2012 is \$30.3 million. The movement from 30 June 2012 reflects the recovery of purchase tax receivable relating to the sale of the Barlad Concession of \$2.5 million, receipt of \$0.9 million on completion of the sale of Regal Petroleum Romania SRL, and operational cash generated since that date.

## 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*

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

The Ukrainian Government is keen to develop the country's domestic production of hydrocarbons since Ukraine imports the majority of its gas needs from Russia. Whilst this should put Regal in a well-placed position, as experienced during 2010 and in the first half of 2011, there are significant risks to carrying out business in the country. It is hoped the involvement of Energees Management Limited, as a major shareholder with extensive experience in Ukraine, will help mitigate such risks in the future.

### *Production risks*

Producing gas and condensate reservoirs are generally characterised by declining production rates that vary depending upon reservoir characteristics and other factors. Future production of the Company's gas and condensate reserves, and therefore the Company's cash flow and income, are highly dependent on the Company's success in efficiently developing and exploiting its current reserves, and finding or acquiring additional reserves. The Company may not be able to develop, find or acquire additional reserves at acceptable costs. The experience gained from

drilling undertaken to date highlights such risks as Regal targets the appraisal and production of these hydrocarbons.

### *Risks relating to further development and operation of the Company's gas fields in Ukraine*

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

### *Exposure to credit, liquidity and cash flow risk*

The Company does not currently have any loans outstanding. Local customers are managed in Ukraine and their financial position, past experience and other factors are evaluated. Internal financial projections are regularly made based on the latest estimates available, and various scenarios are run to assess the robustness of the liquidity of the Company. The Company currently holds sufficient cash for the anticipated short 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. Whilst much of the future capital need is expected to be derived from

## Finance Review continued

operational cash generated from production, including from wells yet to be drilled, there is a risk that in the longer term insufficient operational cash is generated, or that additional funding, should the need arise, cannot be secured.

### *Currency risk*

The Company's main activities are i) investment into the development of the Company's Ukrainian gas and condensate assets; ii) the production and sale of gas and condensate in Ukraine; and iii) the continued exploration for further hydrocarbon reserves.

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

### *Ukraine Production Licences*

The Company operates in a country where the right to production can be challenged by State and non-State parties. During 2010, this manifested itself in the form of a Ministry Order instructing Regal to suspend all operations and production from its Ukrainian licences. Whilst the Ministry Order has now been resolved, the environment is such that a challenge may arise in the future in relation to the Company's operations, licence history, compliance with licence commitments and/or local regulations.

The Company endeavours to ensure compliance with commitments and regulations via Company procedures and controls or, where this is not immediately feasible for practical or logistical considerations, seeks to enter into dialogue with the relevant Government bodies with a view to agreeing a reasonable timeframe for achieving compliance or an alternative, mutually agreeable course of action.

Full details of the principal risks and uncertainties affecting the Company and its operations, in addition to those discussed above, can be found on the appropriate pages of the 2011 Annual Report, which is available on the Company's website [www.regalpetroleum.com](http://www.regalpetroleum.com).

# Condensed Consolidated Income Statement

		<b>6 months 30 Jun 12 (unaudited) \$000</b>	6 months 30 Jun 11 (unaudited) \$000	12 months 31 Dec 11 (audited) \$000
	Notes			
<b>Continuing operations</b>				
Revenue	2	<b>22,033</b>	—	19,069
Cost of sales		<b>(9,032)</b>	(1,543)	(10,125)
<b>Gross profit/(loss)</b>		<b>13,001</b>	(1,543)	8,944
Share-based charge		—	(780)	(780)
Other administrative expenses	3	<b>(4,241)</b>	(9,228)	(16,099)
Total administrative expenses		<b>(4,241)</b>	(10,008)	(16,879)
<b>Operating profit/(loss)</b>		<b>8,760</b>	(11,551)	(7,935)
Interest income		<b>437</b>	43	253
Other finance income	4	<b>1,809</b>	1,072	1,085
Finance costs		<b>(132)</b>	(142)	(282)
Gains and losses: foreign exchange		<b>(582)</b>	631	38
Gains and losses: other		<b>134</b>	(162)	76
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>10,426</b>	(10,109)	(6,765)
Income tax (expense)/credit	5	<b>(3,731)</b>	37	3,460
<b>Profit/(loss) for the period from continuing operations</b>		<b>6,695</b>	(10,072)	(3,305)
<b>Discontinued operations</b>				
Profit for the period from discontinued operations	6	<b>54</b>	10,675	9,713
<b>Profit for the period</b>		<b>6,749</b>	603	6,408
<b>Profit/(loss) per ordinary share (cents) from continuing operations</b>				
Basic and diluted	7	<b>2.1c</b>	(3.2)c	(1.0)c
<b>Profit per ordinary share (cents) from total operations</b>				
Basic and diluted	7	<b>2.1c</b>	0.2c	2.0c

## Condensed Consolidated Statement of Comprehensive Income

	<b>6 months 30 Jun 12 (unaudited) \$000</b>	6 months 30 Jun 11 (unaudited) \$000	12 months 31 Dec 11 (audited) \$000
Equity — foreign currency translation	<b>(196)</b>	106	(8)
Net (expense)/income recognised directly in equity	<b>(196)</b>	106	(8)
Profit for the period	<b>6,749</b>	603	6,408
<b>Total comprehensive income for the period</b>	<b>6,553</b>	709	6,400

## Condensed Consolidated Balance Sheet

	Notes	30 Jun 12 (unaudited) \$000	30 Jun 11 (unaudited) \$000	31 Dec 11 (audited) \$000
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets		69	1,316	84
Property, plant and equipment		231,853	228,330	225,300
Trade and other receivables	8	10,220	15,358	12,207
		<b>242,142</b>	245,004	237,591
<b>Current assets</b>				
Inventories		10,255	10,091	9,139
Assets held for sale	6	776	1,214	786
Trade and other receivables	8	16,053	15,809	16,734
Cash and cash equivalents		24,216	9,489	19,694
		<b>51,300</b>	36,603	46,353
<b>Total assets</b>		<b>293,442</b>	281,607	283,944
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(2,121)	(2,192)	(2,370)
Current tax liabilities		(1,223)	—	(41)
Provisions		(785)	—	(454)
Liabilities directly associated with assets classified as held for sale	6	(44)	(581)	(12)
		<b>(4,173)</b>	(2,773)	(2,877)
<b>Net current assets</b>		<b>47,127</b>	33,830	43,476
<b>Non-current liabilities</b>				
Trade and other payables		(2)	(14)	(9)
Provisions	9	(5,943)	(6,014)	(6,372)
Deferred tax	5	(4,553)	(6,279)	(2,468)
		<b>(10,498)</b>	(12,307)	(8,849)
<b>Total liabilities</b>		<b>(14,671)</b>	(15,080)	(11,726)
<b>Net assets</b>		<b>278,771</b>	266,527	272,218
<b>Equity</b>				
Called up share capital		28,115	28,115	28,115
Share premium account		555,090	555,090	555,090
Other reserves		4,237	4,547	4,433
Retained deficit		(308,671)	(321,225)	(315,420)
<b>Total equity</b>		<b>278,771</b>	266,527	272,218

## 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 2011 (audited)	27,932	555,090	11,176	168	4,273	(333,784)	264,855
Profit for the period	—	—	—	—	—	603	603
Current period IFRS2 charge	—	—	780	—	—	—	780
Transfer for options exercised or expired	183	—	(11,956)*	—	—	11,956	183
Exchange differences	—	—	—	106	—	—	106
As at 1 July 2011 (unaudited)	28,115	555,090	—	274	4,273	(321,225)	266,527
Changes in equity	—	—	—	(114)	—	5,805	5,691
<b>As at 1 January 2012 (audited)</b>	<b>28,115</b>	<b>555,090</b>	<b>—</b>	<b>160</b>	<b>4,273</b>	<b>(315,420)</b>	<b>272,218</b>
<b>Profit for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>6,749</b>	<b>6,749</b>
<b>Exchange differences</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(196)</b>	<b>—</b>	<b>—</b>	<b>(196)</b>
<b>As at 30 June 2012 (unaudited)</b>	<b>28,115</b>	<b>555,090</b>	<b>—</b>	<b>(36)</b>	<b>4,273</b>	<b>(308,671)</b>	<b>278,771</b>

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

# Condensed Consolidated Cash Flow Statement

		<b>6 months 30 Jun 12 (unaudited) \$000</b>	6 months 30 Jun 11 (unaudited) \$000	12 months 31 Dec 11 (audited) \$000
	Notes			
<b>Operating activities</b>				
Cash from/(used in) operations	10	<b>18,448</b>	(34,497)	(21,365)
Interest paid		<b>(4)</b>	(17)	(34)
Taxation paid		<b>(442)</b>	(28)	(182)
Interest received		<b>437</b>	43	256
<b>Net cash from/(used in) operating activities</b>		<b>18,439</b>	(34,499)	(21,325)
<b>Investing activities</b>				
Proceeds from sale of discontinued operations	6	—	22,651	23,283
Purchase tax payment relating to sale of discontinued operation	6	—	(3,219)	(3,219)
Purchase of property, plant and equipment		<b>(10,463)</b>	(1,112)	(4,136)
Increase in related purchase tax receivable		<b>(2,340)</b>	(142)	(396)
Purchase of materials inventory		<b>(1,126)</b>	—	(971)
Proceeds from sale of materials inventory		<b>115</b>	51	1,427
Purchase of intangible assets		<b>(160)</b>	(7)	(255)
Proceeds from sale of property, plant and equipment		<b>19</b>	—	5
<b>Net cash (used in)/provided by investing activities</b>		<b>(13,955)</b>	18,222	15,738
<b>Financing activities</b>				
Proceeds from issue of shares		—	183	183
Decrease in other financial assets		—	1,547	1,547
<b>Net cash from financing activities</b>		—	1,730	1,730
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4,484</b>	(14,547)	(3,857)
<b>Cash and cash equivalents at beginning of period</b>		<b>19,705</b>	23,265	23,265
Effect of foreign exchange rate changes		<b>39</b>	771	297
<b>Cash and cash equivalents at end of period</b>		<b>24,228*</b>	9,489	19,705*

\* Includes cash balances within assets classified as held for sale of \$12,000 and \$11,000 as at 30 June 2012 and 31 December 2011 respectively (see note 6).

# Notes to the Condensed Consolidated Financial Statements

## 1. Basis of preparation

The Interim 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 Report have 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's Annual Report and Accounts for the year ended 31 December 2011.

For the reasons outlined in the "Exposure to credit, liquidity and cash flow 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 2012 and 30 June 2011 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 2012 and their report is shown on page 22.

The information for the year ended 31 December 2011 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, did not draw any attention to any matters by way of an emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

## 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, with its head office in the United Kingdom. These geographical segments are the basis on which the Group reports its segment information. The segment result as presented represents operating profit/(loss) before depreciation, amortisation and share based charges.

Details of the Group's discontinued operations can be found in note 6.

## 2. Segment information continued

6 months to 30 June 12 (unaudited)

	Ukraine \$000	United Kingdom \$000	Total continuing operations \$000	Discontinued operations \$000	Total \$000
Gas sales	16,471	—	16,471	213	16,684
Condensate sales	5,562	—	5,562	—	5,562
Total sales (incl. sales to third parties)	22,033	—	22,033	213	22,246
Segment result	14,891	(1,528)	13,363	(101)	13,262
Depreciation and amortisation			(4,603)	—	(4,603)
Operating profit/(loss)			8,760	(101)	8,659
Segment assets	270,009	22,657	292,666	776	293,442
Capital additions	11,142	—	11,142	—	11,142

## Notes to the Condensed Consolidated Financial Statements continued

### 2. Segment information continued

6 months to 30 June 11 (unaudited)

	Ukraine \$000	United Kingdom \$000	Total continuing operations \$000	Discontinued operations \$000	Total \$000
Gas sales	—	—	—	204	204
Condensate sales	—	—	—	—	—
Total sales (incl. sales to third parties)	—	—	—	204	204
Segment result	(3,619)	(7,020)*	(10,639)	(473)	(11,112)
Depreciation and amortisation			(132)	—	(132)
Share-based charge			(780)	—	(780)
Operating loss			(11,551)	(473)	(12,024)
Segment assets	258,254	20,221	278,475	3,132	281,607
Capital additions	146	14	160	205	365

\* Including transaction costs of \$4.3 million (see note 3).

## 2. Segment information continued

12 months to 31 December 11 (audited)

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

\* Including transaction costs of \$4.3 million (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 Energiees Management Limited in March 2011.

## 4. Finance income

Finance income principally comprises of the unwinding of the discount on long term receivables (see note 8) of \$1,759,000 (1H 2011: \$1,072,000).

## Notes to the Condensed Consolidated Financial Statements *continued*

### 5. Taxation

The overall Income Statement charge for taxation for the period was \$3,742,000 (1H 2011: charge of \$1,986,000) which comprises a deferred taxation credit of \$2,085,000 (1H 2011: credit of \$66,000) and current income tax of \$1,657,000 (1H 2011: \$2,052,000). Of the total balance, \$11,000 arose in respect of the Group's discontinued operations (1H 2011: \$2,023,000). See note 6.

The deferred tax charges and 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:

	<b>6 months 30 Jun 12 (unaudited) \$000</b>	6 months 30 Jun 11 (unaudited) \$000	12 months 31 Dec 11 (audited) \$000
At beginning of period	<b>2,468</b>	6,345	6,345
Charge/(credited) to income statement			
— Current year	<b>2,085</b>	48	856
— Prior year	—	(114)	(4,733)
At end of period	<b>4,553</b>	6,279	2,468

The current income tax expense together with the deferred tax charge, creates an effective tax rate for the period on continuing operations of 36%.

The Directors do not consider it appropriate to recognise deferred tax assets, resulting from UK accumulated tax losses as at 30 June 2012, as there is insufficient evidence of future taxable profits in the entities concerned. As at 30 June 2012, and in gross terms, there were unrecognised deferred tax assets in respect of estimated UK tax losses carried forward of up to \$117 million (31 December 2011: \$125 million).

## 6. Discontinued operations

On 30 May 2012, Regal entered into a conditional sale and purchase agreement with Zeta Petroleum plc ("Zeta") for the sale of the Company's wholly-owned Romanian subsidiary, Regal Petroleum Romania SRL, which held a 50% non-operated interest in the Suceava concession in Romania.

The consideration under the sale and purchase agreement was \$650,000, which was payable in cash on completion. The consideration was subject to certain adjustments to be made on completion of the sale. The adjustments principally related to the apportionment between Regal and Zeta of joint venture balances relating to the Suceava concession. The agreement was subject to certain conditions precedent which, inter alia, related to the capitalisation of outstanding intra-group debt owed to the Company. The sale was completed on 31 July 2012. Following the adjustments, the net amount received by Regal on completion was approximately \$915,000. As at 30 June 2012, the subsidiary has been classified as held for sale on the balance sheet.

No material gain or loss will arise on this transaction in 2012 as the asset held by the subsidiary had been written down to estimated value in 2010 and 2011, resulting in cumulative impairment charges of \$11,583,000.

On 27 January 2011, the Company entered into a conditional sale and purchase agreement with Apache East Ras Budran Corporation LDC in respect of its 25% non-operated interest in the East Ras Budran Concession in Egypt. The sale closed on 7 July 2011 resulting in net receipts to Regal of \$640,344.

On 29 September 2010, the Company entered into a conditional sale and purchase agreement with Chevron Romania Exploration and Production BV for the sale of Regal's 100% owned Barlad Concession in Romania for a cash consideration of \$25.0 million. The sale was completed on 14 February 2011, with sales proceeds received, net of taxes and associated costs, amounting to \$22.7 million. Associated recoverable purchase tax payments of \$3.2 million were made but have been reimbursed in July 2012 (see note 8).

## Notes to the Condensed Consolidated Financial Statements continued

### 6. Discontinued operations continued

The results of these discontinued operations were as follows:

	<b>6 months 30 Jun 12 (unaudited) \$000</b>	6 months 30 Jun 11 (unaudited) \$000	12 months 31 Dec 11 (audited) \$000
<b>Regal Petroleum Romania SRL*</b>			
Revenue	<b>213</b>	204	473
Expenses	<b>(148)</b>	(311)	(1,506)
Profit/(loss) before tax	<b>65</b>	(107)	(1,033)
Attributable tax expense	<b>(11)</b>	(7)	(29)
Net profit/(loss) attributable to discontinued operation	<b>54</b>	(114)	(1,062)
<b>East Ras Budran (Egypt)</b>			
Income	—	374	360
Net profit attributable to discontinued operation	—	374	360
<b>Barlad (Romania)</b>			
Expenses	—	(719)	(719)
Profit on disposal of discontinued operation	—	13,150	13,150
Attributable tax expense	—	(2,016)	(2,016)
Net profit attributable to discontinued operation	—	10,415	10,415

\* Excludes results associated with the Group's Barlad concession which are shown separately.

## 6. Discontinued operations continued

Cash flows for the periods are summarised below:

	<b>6 months 30 Jun 12 (unaudited) \$000</b>	6 months 30 Jun 11 (unaudited) \$000	12 months 31 Dec 11 (audited) \$000
<b>Regal Petroleum Romania SRL*</b>			
Operating activities	<b>(118)</b>	(58)	(349)
Investing activities	<b>(160)</b>	—	(224)
	<b>(278)</b>	(58)	(573)
<b>East Ras Budran (Egypt)</b>			
Operating activities	—	(7)	(29)
Investing activities			
— net proceeds from sale of discontinued operations	—	—	632
— other	—	(6)	(7)
	—	(13)	596
<b>Barlad (Romania)</b>			
Operating activities	—	(719)	(719)
Investing activities			
— net proceeds from sale of discontinued operations	—	22,651	22,651
— other	—	(3,219)	(3,219)
	—	18,713	18,713

\* Excludes results associated with the Group's Barlad concession which are shown separately.

## Notes to the Condensed Consolidated Financial Statements continued

### 6. Discontinued operations continued

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

	<b>Regal Petroleum Romania SRL 30 Jun 12 (unaudited) \$000</b>	East Ras Budran 30 Jun 11 (unaudited) \$000	Regal Petroleum Romania SRL 31 Dec 11 (audited) \$000
Intangible exploration assets	429	1,100	509
Inventory	—	114	70
Trade and other receivables	335	—	196
Cash and cash equivalents	12	—	11
Total assets classified as held for sale	<b>776</b>	1,214	786
Trade and other payables	<b>(44)</b>	(581)	(12)
Total liabilities associated with assets classified as held for sale	<b>(44)</b>	(581)	(12)

### 7. Profit per ordinary share

The calculation of basic profit per ordinary share has been based on the profit for the period and 320,637,836 (1H 2011: 319,721,924) ordinary shares, being the average number of shares in issue for the periods to 30 June 2012. The impact of potentially dilutive instruments (share options) is either insignificant or, for the periods for which there was a loss, anti-dilutive.

### 8. Trade and other receivables

Included within trade and other receivables is purchase tax receivable on capital expenditure and other costs in Ukraine of \$18,054,000 (31 December 2011: \$18,868,000), 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 \$7,834,000 (31 December 2011: \$7,710,000). Additionally, purchase tax receivable relating to the sale of the Barlad Concession (net of subsequent foreign exchange losses) of \$2,629,000 (31 December 2011: \$2,820,000) is included within current trade and other receivables. This purchase tax was received in July 2012.

### 9. Provisions

The non-current provision of \$5,943,000 (31 December 2011: \$6,372,000) principally represents a provision for the decommissioning of the Group's Ukraine production facilities and includes site restoration. It is based on the net present value of the Group's estimated liability. For the comparative period, the provision for decommissioning was \$6,089,000. The net movement in this provision reflects a change in the cost estimate together with the effect of unwinding the discount. These costs are expected to be incurred by 2024.

## 10. Reconciliation of operating profit/(loss) to operating cash flow

	<b>6 months 30 Jun 12 (unaudited) \$000</b>	6 months 30 Jun 11 (unaudited) \$000	12 months 31 Dec 11 (audited) \$000
Operating profit/(loss) from continuing operations	<b>8,760</b>	(11,551)	(7,935)
Operating loss from discontinued operations	<b>(101)</b>	(473)	(1,392)
Depreciation, amortisation and impairment charges	<b>4,603</b>	132	4,940
Loss on disposal of intangible assets	—	—	6
Loss on disposal of property, plant and equipment	—	—	21
Write down of inventory	—	—	1,307
Movement in provisions	<b>45</b>	4	693
Share-based charge	—	780	780
(Increase)/decrease in operating stock	<b>(96)</b>	(206)	163
Decrease/(increase) in debtors	<b>5,628</b>	(2,085)	956
Decrease in creditors	<b>(391)</b>	(21,098)	(20,904)
Net cash generated from/(used in) operations	<b>18,448</b>	(34,497)	(21,365)

## 11. Subsequent events

On 31 July 2012 the Company completed the sale of its wholly-owned Romanian subsidiary, Regal Petroleum Romania SRL, the details of which are discussed in note 6.

# 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 2012 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 11. 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 2012 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

24 September 2012

# Notes

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### PR Advisors

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United Kingdom

## Glossary

### m<sup>3</sup>/d

cubic metres per day

### Mm<sup>3</sup>

thousand cubic metres

### bbbl

barrel

### boepd

barrels of oil equivalent per day

### LPG

Liquefied Petroleum Gas

### \$

United States Dollar



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