



*REGAL PETROLEUM plc*

*2002 Annual Report*



# *corporate directory*

## **DIRECTORS**

V F Timis (Executive Chairman)  
G Nolte (Chief Executive Officer)  
G R Featherby (Finance Director)  
F D Wheatley (Non-Executive Director)  
W H Humphries (Non-Executive Director)

## **COMPANY SECRETARY**

S P West

## **REGISTERED OFFICE**

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Company Number 4462555  
Registered in England and Wales

## **WEBSITE**

[www.regalpetroleum.com](http://www.regalpetroleum.com)



#### **STOCK EXCHANGE LISTING**

Regal Petroleum plc is listed on the Alternative Investment Market of the London Stock Exchange.  
Symbol: RPT

#### **SHARE REGISTRY**

Computershare Investor Services PLC  
PO Box 82, The Pavilions  
Bridgewater Road  
Bristol BS99 7NH  
United Kingdom

#### **AUDITORS**

BDO Stoy Hayward  
8 Baker Street  
London, W1U 3LL  
United Kingdom

#### **NOMINATED ADVISER AND BROKER**

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

#### **BANKERS**

HSBC Bank plc  
79 Piccadilly  
London W1J 8EU  
United Kingdom

#### **SOLICITORS**

Osborne Clarke  
Apex Plaza, Forbury Road  
Reading RG1 1AX  
United Kingdom

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## chairman's statement

### DEAR SHAREHOLDER

The year 2002 has been an eventful and successful year for Regal enabling us to make significant progress towards our objectives.

The establishment of a central London office, our successful £10 million fund raising through an institutional placing and admission to the Alternative Investment Market ("AIM") of the London Stock Exchange in September 2002 together with the commencement of gas production in August 2002 has enabled us to initiate a more aggressive exploration and development plan, hire and retain an experienced management team and to investigate other prospects in order to expand and diversify our operations.

Our share price has increased significantly from our initial listing price of 60 pence. Taking into account the difficult market conditions towards the end of 2002, I believe this is an excellent result for our shareholders.

### AIM ADMISSION AND FINANCING

On 27 September 2002 we were admitted for trading on AIM and raised £10 million through an institutional placing of 16.7 million shares at 60 pence.

The fund raising has allowed us to invest funds towards the completion of well work-overs, the drilling of new wells and associated capital infrastructure, whilst the AIM listing has raised our corporate profile in the investment community and the oil & gas industry, particularly in the Ukraine.

### PRODUCTION COMMENCED

Our first work-over well in the Ukraine gas field, MEX 3, commenced initial production in August 2002 and is currently flowing at an average rate of approximately 110,000sm<sup>3</sup> of gas and 2 tonnes of condensate per day.

### REGISTRATION AS A PRODUCER

In September 2002 we were officially registered as an oil and gas producer in Ukraine by *Oil and Gas of Ukraine*, the State entity responsible for all matters pertaining to the production, processing and transit of oil and gas.

This registration enables us to proceed with our export programme and elevates us to a high standing with traders and users within Ukraine.

### BOARD APPOINTMENTS

I am pleased to welcome Guenter Nolte to the Board of Directors. Mr Nolte has been appointed Chief Executive Officer and brings over 25 years of experience in the oil and gas industry together with strong business contacts in Central and Eastern Europe.

### OUTLOOK FOR 2003

During 2003 we will continue our aggressive development plan in Ukraine to achieve our daily gas production target of 1,500,000sm<sup>3</sup> per day by the end of the year. We also expect to commence the export of gas in the third quarter of 2003 to take advantage of the higher sales prices available. This will substantially increase our cash-flow and enable further acceleration of our exploration and drilling programme.

The year 2002 has  
been an eventful and  
successful year for Regal  
enabling us to make  
significant progress  
towards our objectives.

We expect to complete the construction of a new modular gas processing plant in the fourth quarter of 2003 which will substantially reduce our processing costs.

We are currently completing a development plan for submission to the Ukrainian government in order to obtain a production licence. We expect to receive the licence in the fourth quarter of 2003. Until such time we will continue to produce gas and condensate under the terms of our exploration licences.

We intend to develop Regal into an international oil and gas company with a clear focus on geographic areas and assets where we can add value. To achieve this goal and to diversify our operations we intend to examine additional oil and gas opportunities in 2003. This is evidenced by the acquisition of an exclusive exploration, development and production licence in North East Romania in February 2003.

#### AND FINALLY

The skill, experience, teamwork and commitment of our staff and Board of Directors is a key to our success, and accordingly their efforts are much appreciated.

I would like to thank you, the shareholders, for your support and goodwill.

We look forward to another exciting and successful period for the company over the forthcoming year where shareholder value can be increased substantially once more.

V. Frank Timis  
Chairman



## *mission*

To *grow* into an international oil and gas company with a clear *focus* on geographic areas and assets where shareholder *value* can be increased.

## board of directors

### VASILE FRANK TIMIS

#### Executive Chairman

Frank Timis founded the Regal Group in November 1996 to seek opportunities in the oil and gas industry in Eastern Europe. Mr Timis has significant business contacts in Romania and Eastern Europe. He is the former Chief Executive of European Goldfields Limited, a precious metal exploration company listed on the Canadian Ventures Exchange. He is also the former Executive Chairman of Gabriel Resources Limited, a gold mining company listed on the Toronto Stock Exchange and a member of the TSE 300 Composite Index.

### GUENTER NOLTE

#### Chief Executive Officer

Guenter Nolte is a German resident and former Managing Director of Halliburton Company Germany. Mr Nolte has over 25 years of experience in the oil and gas industry together with strong business contacts in Central and Eastern Europe and extensive management experience.

### GREGORY JONATHAN LEE

#### Technical Director (resigned 27 May 2003)

Gregory Lee is a chartered professional engineer and a member of the Institute of Engineers (Australia) and the Society of Petroleum Engineers. He has over 20 years experience in petroleum engineering, drilling and production operations. Mr Lee was formerly an independent consultant petroleum engineer to major oil and gas companies.

### GLENN ROBERT FEATHERBY

#### Finance Director

Glenn Featherby is a Chartered Accountant and member of the Institute of Chartered Accountants in Australia. He has over 20 years experience in corporate advisory work and has worked extensively in the resources sector. He worked with KPMG in Perth, Western Australia and London before establishing his own accounting practice in Perth in 1998. He has also been a non-executive director of Gabriel Resources Limited.

### FRANK DAVID WHEATLEY

#### Non-Executive Director

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

### WILLIAM HENRY HUMPHRIES

#### Non-Executive Director

William Humphries has 30 years experience in the mining and civil engineering industries of Western Australia. From 1996 to 1998 he was the General Manager of Sardinia Gold Mining SpA. From January 1999 to July 2002 he was the Managing Director of Brancote Holdings PLC, a mining company formerly listed on AIM. Mr Humphries is currently Managing Director of HPD Exploration plc, a company listed on AIM, and President of Landore Resources Inc, a mining company listed on the Canadian Ventures Exchange.

## review of operations

### DNEIPER-DONETS BASIN

The Dneiper-Donets sedimentary basin is located in north-east Ukraine in the Poltava Oblast Province about 200 kilometres east of Ukraine's capital city, Kiev. This basin is the most significant gas producing area of Ukraine and currently produces 90% of Ukraine's gas and condensate.

Regal Petroleum has a 75% interest in three adjacent licences located in the Dneiper-Donets basin. Independent petroleum reservoir experts have estimated that these licences contain a combined total of 25 billion cubic metres of proven and probable gas reserves and 5.8 million cubic metres of proven and probable condensate reserves.

### LICENCES

The three licences are known by the names of SV (No. 1306 Svyrydivske), MEX (No. 1308 Mekhediviska) and GOL (No. 1307 Golotovschinska). Each licence is officially classified as a separate field, however, the gas pools often overlap the boundaries and accordingly these three licences are referred to collectively as the "gas field".

### DRILLING TO DATE

To date 18 exploratory wells have been drilled in the gas field. Of these, 12 wells have been flow-tested and demonstrated that commercial gas can be produced. As at 31 December 2002 there was one well in commercial production, MEX 3.

### COMMERCIAL PRODUCTION 2002

#### Work-Over Well MEX 3

The Group completed the work-over of the MEX 3 well and commenced commercial production in August 2002. MEX 3 is currently producing an average of 110,000sm<sup>3</sup> of gas and 2 tonnes of condensate per day.

#### WELL DEVELOPMENT 2002

Significant development progress was made on several wells during the fourth quarter of 2002.

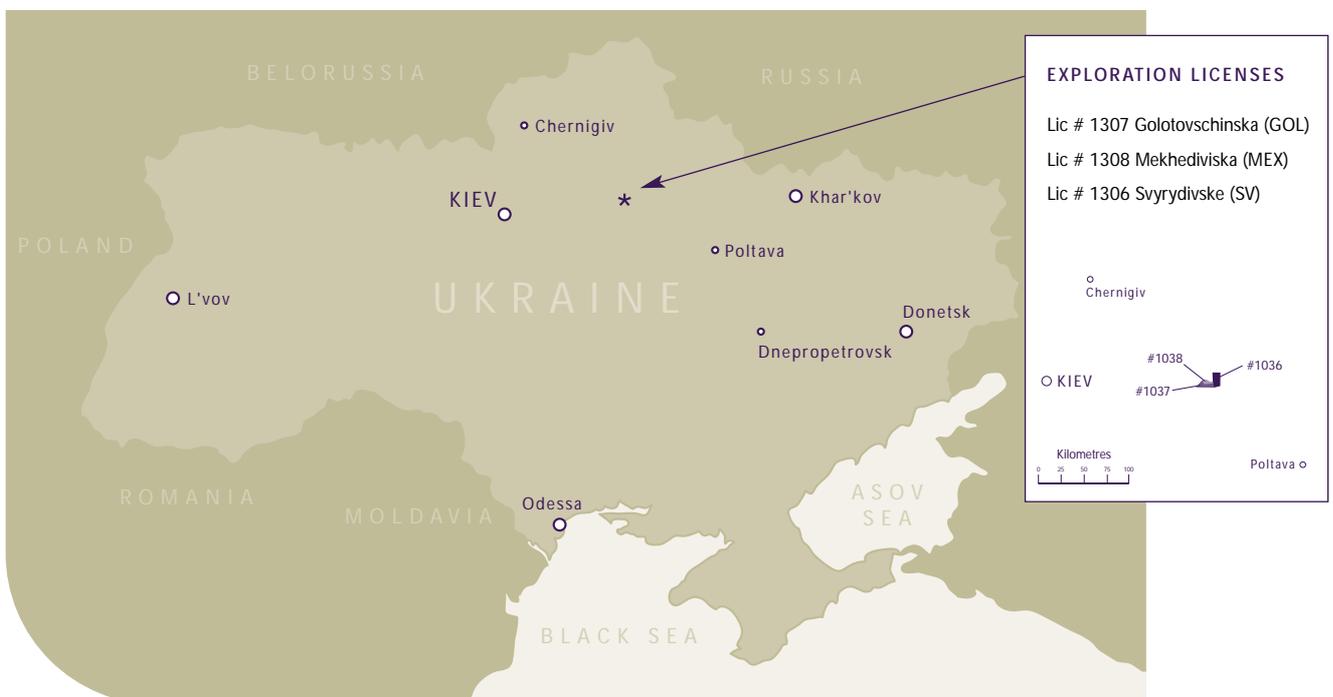
#### New Well GOL 2

The drilling of the Group's first new well, GOL 2, was successfully completed in November 2002 and, following production testing, was connected via a newly constructed 10 kilometres, 114mm diameter underground pipeline to Micherdovka, the existing state owned treatment facility. However, due to severe weather conditions in December 2002, GOL 2 did not commence commercial production until January 2003.

#### Work-Over Well GOL 1

A work-over rig was installed on the Group's third well, GOL 1, in the fourth quarter of 2002. Work-over operations and the construction of associated infrastructure commenced in late 2002. A new 11 kilometre underground pipeline connecting the well to the processing plant was completed in December 2002.

### REGIONAL LOCATION MAP - UKRAINE



#### Work-Over Well SV 10

A work-over rig was installed and the work-over of well SV 10 commenced in late 2002. Cement suspension plugs had been drilled and milled to a depth of approximately 5,000 meters as at 31 December 2002.

#### New Well SV 52

The location for Regal's second new well, SV 52, was prepared, the drilling rig was installed and commissioned and drilling commenced in the third quarter of 2002. The well had been drilled to a depth of approximately 3,815 metres at 31 December 2002.

#### New Well MEX 102

The location for Regal's third new well, MEX 102, was prepared and the drilling rig was installed and commissioned in the fourth quarter of 2002.

#### New Well SV 53

The location for Regal's fourth new well, SV 53, commenced construction in late 2002.

#### Other Work-Over Candidates

Several other well work-over candidates were identified during 2002. These work-over candidates form part of the development programme for 2003.

#### GAS PROCESSING PLANT

The gas produced from Regal's wells is pumped via Regal owned pipelines to a Ukrainian state owned processing and conditioning plant before being pumped into the state owned main trunk pipeline and ultimately to customers.

The Group intends to identify means to reduce the operating costs of gas production and to reduce the Group's exposure to state-owned and managed utilities. To this end, the Group commenced negotiations in 2002 for the development of an independent gas processing facility, together with a new underground pipeline to the main export trunk pipeline, with a view to having a fully operational plant at the end of 2003.

#### REGISTRATION AS A PRODUCER

Regal was officially registered in September 2002 as an oil and gas producer in Ukraine by *Oil And Gas of Ukraine*, the State entity responsible for all matters pertaining to the production, processing and transit of oil and gas. This registration enables Regal to proceed with the export programme and elevates the company to a high standing with traders and users within the Ukraine.



#### EXPORT PROGRAMME

Current prices on international markets realised for gas sales are in excess of US\$90 per thousand cubic meters of gas which is a substantial premium to locally sold gas. Accordingly, the Group will commence the export of gas once it is able to produce a volume considered sufficient to satisfy long-term orders from overseas companies.

Discussions with potential buyers throughout Europe have taken place.

#### FUTURE ACTIVITY

The main emphasis of Regal in 2003 is on the continuation of the drilling/work-over programme, construction of the new gas processing plant and associated infrastructure, procurement of a production licence, and the commencement of export sales.

Regal has also been appraising a number of other oil and gas opportunities in other countries as evidenced by the acquisition of an exclusive exploration, development and production licence in North East Romania in February 2003.

## the ukraine

### ECONOMY

The Ukraine is a country of some 50 million people which achieved independence from the Soviet Union in 1991. Teething troubles of the new nation resulted in a cumulative 60% decline in Gross Domestic Product ("GDP") during the nine years after independence. However, this trend has now reversed with a 5.9% increase in 2000, a 9.3% increase in 2001, a 4.1% increase in 2002 and a forecast of 4% growth in 2003.

The 1990s have been described as a lost decade for the Ukraine; devolution of what had previously been central government functions to inadequately resourced local administration accentuated the declining economic performance and by 1999, the World Bank estimated that 27% of the population were living in poverty.

In June 1998, President Kuchma adopted a decree on strategy for Ukraine's integration into the European Union ("EU") which states "*the main priority of Ukraine's foreign policy in the medium term is the attainment of associate member status in the EU*". Links with the EU are a cornerstone of Ukrainian economic policy too: the EU is second only to the other former Soviet states as a trading partner and the EU is the Ukraine's largest aid donor.

### WORLD BANK SUPPORT

The Ukraine is also the beneficiary of World Bank support. In September 2001 an initial US\$250 million Programmatic Adjustment Loan ("PAL") was approved "*to support the government's medium-term economic development and reform programme*".

The involvement of bodies such as the EU and the World Bank will provide an impetus for economic reform and provide independent scrutiny of economic management. Recent agreements between Russian, German and Ukrainian governments concerning pipelines also provides assurance that international commercial norms of behaviour are being applied in Ukraine. A World Bank report in 2000 concluded "*The potential for increased global and regional stability from a wealthier and socially more cohesive Ukraine cannot be underestimated*".

### POLITICS

Ukraine operates a presidential democracy headed by President Leonid Kuchma (re-elected for a second 5 year term in November 1999) and a single-chamber, 450 seat parliament (the Verkhovna Rada). Half of the parliamentary seats are elected on a first-past the post system with the balance being allocated to party appointees by proportional representation to parties gaining over 4% of the vote.

### NATURAL GAS MARKET

Natural gas represents between 40-45% of the Ukraine's total energy consumption and national production represents approximately 25% of the country's total gas requirement. The balance is imported, primarily from Russia and Turkmenistan. Much of the Russian gas is received as transit fees for the Russian export gas using the pipelines across Ukraine. In the late 1990s, disputes arose between the two over allegations that Ukraine was illegally diverting gas in transit. However, since the arrival of President Putin, relations have improved markedly. Inter-governmental cooperation supported by the EU has now resulted in a joint consortium between Russia, Ukraine and Germany to run the pipelines.

The tri-party agreement will, according to President Putin's statement, lead to the investment of US\$2.5 billion to modernise the pipelines and to a further US\$10 billion programme to increase overall transmission capacity.

The involvement of bodies such as the EU and the World Bank will provide an impetus for economic reform and provide independent scrutiny of economic management.

During 2003 we will continue our aggressive development plan in Ukraine to achieve our daily gas production target of 1,500,000sm<sup>3</sup> per day by the end of the year.



# financial review

## RESULTS SUMMARY

The financial results for the year ended 31 December 2002 reflect the Group's successful fund raising through the institutional placing and the acceleration of well development during the fourth quarter of 2002.

## INSTITUTIONAL PLACING

On 27 September 2002 Regal Petroleum plc successfully raised £10 million through an institutional placing of 16.7 million shares at 60 pence. Initially these funds have been applied against repayment of debt and invested towards the well development programme.

### PLACING STATISTICS

Placing Price Per Ordinary Share	60p
Number of Ordinary Shares in issue immediately following admission	57,316,667
Market capitalisation following the Placing at the placing price	£34m
Total proceeds from the Placing	£10m

## TURNOVER

Turnover for the year was \$583,000 reflecting three months of gas and condensate production from well MEX 3.

All production was sold locally at an average rate of \$54 per thousand cubic metres of gas and \$186 per metric tonne of condensate. In order to minimise counterparty risk all sales are for payment in advance.

## OPERATING LOSS

The operating loss for the year was \$4,172,000 which included one-off listing costs of \$1,782,000.

## LOSS BEFORE AND AFTER TAX

The loss before and after tax of \$4,492,000 included a total interest charge for the year of \$430,000, representing interest paid on funds loaned to the Group prior to the fund raising in September 2002. As at 31 December 2002 the Group had no long term external borrowings.

Total interest receivable of \$110,000 reflected the Groups successful cash management since the large cash injection from the Institutional Placing in September 2002.

## CASH FLOW

Net cash outflow from operating activities was \$5,281,000 which included \$1,782,000 of one-off listing costs.

The capital expenditure and financial investment outflow of \$3,207,000 represented the aggressive investment towards well development in the fourth quarter of 2002.

As at 31 December 2002 the Group had total cash balances of \$8,974,000.

## FINANCIAL RISK

The main risks Regal is exposed to are resource price, exchange rate, counterparty and liquidity risks in its Group operations. Wherever possible the Group attempts to minimise the impact of such risks.

Resource risk and counterparty risk is minimised through short-term forward sale contracts. Longer term contracts will be negotiated once production levels have increased.

To minimise exchange rate risks, Regal attempts to match currency receipts and payments wherever possible. Regal also seeks to retain sufficient liquidity, either in the form of cash or maturing deposits to manage the Group's ongoing programmes.

**Glenn R Featherby**  
Finance Director

## corporate governance

Regal Petroleum is committed to high standards of corporate governance and the Company is supportive of the provisions set out in Section 1 of the Combined Code on Corporate Governance laid out in the Financial Services Authority Listing Rules.

Companies on the Alternative Investment Market of the London Stock Exchange are not required to comply with the Combined Code and due to the size of the company Regal Petroleum is not in full compliance. The Company is, however, working towards full compliance and expects to be fully compliant in 2004.

### THE BOARD

The Board of Regal Petroleum consists of four executive directors and two non-executive directors. The composition of the Board ensures that no one individual or group dominates the decision making process.

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

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

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

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

### REMUNERATION COMMITTEE

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

The Remuneration Committee presently comprises: Mr W H Humphries and Mr F D Wheatley.

### AUDIT COMMITTEE

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

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

The Audit Committee presently comprises: Mr W H Humphries and Mr F D Wheatley.

### NOMINATION COMMITTEE

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

### INTERNAL CONTROLS

The Directors are responsible for the Group's system of internal control and reviewing its effectiveness. Any such system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal controls and business risks were monitored in the course of 2002 through regular board meetings. A more formal review of internal controls is scheduled for the third quarter of 2003.

#### COMMUNICATION WITH SHAREHOLDERS

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

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

The annual report together with other information about the Group is available on the Group's internet website at [www.regalpetroleum.com](http://www.regalpetroleum.com)

#### GOING CONCERN

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



The directors present their report together with the audited financial statements for the year ended 31 December 2002. The company was incorporated on 17 June 2002, as Hillgate (324) Limited. On 7 August 2002, the company changed its name to Regal Petroleum Limited. On 19 September 2002 the company was reregistered as a public limited company and changed its name to Regal Petroleum plc. On 27 September 2002, the company was admitted to the Alternative Investment Market ("AIM") of the London Stock Exchange.

## RESULTS AND DIVIDENDS

During the year, the group carried out a corporate restructuring including the introduction of a new holding company. The profit and loss account which is set out on page 16 and shows a loss for the year, has been prepared using merger accounting and is presented on a pro-forma basis as if the new holding company Regal Petroleum plc, had been in existence throughout both the current and prior periods. Further information is given in note 1 on page 21.

The directors do not recommend the payment of a final ordinary dividend for the period.

## PRINCIPAL ACTIVITIES, TRADING REVIEW AND FUTURE DEVELOPMENTS

The principal activities of the Group are oil and gas exploration, development and production. The Group has its head office in London and has oil and gas interests in Ukraine and Romania. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 11 to the accounts.

Detailed reviews of trading activities and future developments are included within the Chairman's Statement and the Review of Operations.

## DIRECTORS

The directors of the company during the period and their beneficial interests throughout the period were as follows:

	ORDINARY SHARES OF 5P EACH	
	31 DECEMBER 2002	31 DECEMBER 2002
	SHARES	SHARE OPTIONS
V F Timis (1)(2)	8,680,887	250,000
G J Lee (1)	1,000,000	300,000
W Humphries	200,000	500,000
F Wheatley	100,000	250,000
G Featherby (3)	2,074,000	250,000

- (1) *Vasile Frank Timis and Gregory Jonathan Lee are beneficiaries of a trust that holds 800,000 ordinary shares. Gregory Lee initially has an interest in possession in the trust. The trustees of such trust are Rathbone Trustees Jersey Limited. If certain conditions are met or not (as the case may be) Vasile Frank Timis will cease to be a beneficiary in respect of some or all of the trust assets. The 800,000 ordinary shares held by the trust are shown as ordinary shares in which both Frank Timis and Gregory Lee are interested.*
- (2) *Vasile Frank Timis has a beneficial interest in 7,880,887 ordinary shares registered in the name of Rathbones Trustees Jersey Ltd ATFT Timis Trust.*
- (3) *Glenn Robert Featherby has a beneficial interest in 2,074,000 ordinary shares registered in the name of Avenger Investment Holdings Limited*

## SUBSTANTIAL SHAREHOLDERS

The following parties had interests of greater than 3% of the issued share capital of the company at 31 December 2002:

Alker International Investments Limited

Goldman Sachs Securities (Nominees) Limited

Avenger Investment Holdings Limited

Rathbones Trustees Jersey Limited

Ballure Trading Limited

Voldemort Limited

Chase Nominees Limited



*Top: MEX 3 workover well*

*Middle: Underground pipeline construction*

*Above: GOL1 workover well*

#### **CREDITORS PAYMENT POLICY**

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

The company's average number of days purchases included within trade creditors at the year end was 30.

#### **DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **AUDITORS**

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

**By order of the Board**

S P West  
Secretary  
20 May 2003

# *report of the independent auditors*

## TO THE SHAREHOLDERS OF REGAL PETROLEUM PLC

We have audited the financial statements of Regal Petroleum plc for the year ended 31 December 2002 on pages 16 to 32 which have been prepared under the accounting policies set out on pages 21 to 23.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Financial Review, the Corporate Governance Statement and the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2002 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

### **BDO STOY HAYWARD**

Chartered Accountants and Registered Auditors

London

20 May 2003

## *consolidated profit and loss account*

for the year ended 31 December 2002

	NOTE	2002 \$'000	2001 \$'000
Turnover	3	583	-
Cost of sales		(92)	-
<b>Gross profit</b>		<b>491</b>	<b>-</b>
Administrative expenses		(4,663)	(829)
<b>Operating loss</b>	<b>6</b>	<b>(4,172)</b>	<b>(829)</b>
Interest receivable		110	-
Interest payable and similar charges	7	(430)	(178)
<b>Loss on ordinary activities before and after taxation</b>		<b>(4,492)</b>	<b>(1,007)</b>
<b>Loss per ordinary share (cents)</b>			
Basic	9	10.1¢	2.5¢
Diluted	9	10.1¢	2.5¢

All amounts relate to continuing activities.

During the period the group carried out a corporate restructuring including the introduction of a new holding company. The profit and loss account has been prepared using merger accounting and is presented on a proforma basis as if the new holding company, Regal Petroleum plc, has been in existence throughout both the current and prior periods. Further information is given in note 1 on page 21.

The notes on pages 21 to 32 form part of these financial statements.

# *consolidated statement* of total recognised gains and losses and reconciliation of movements in shareholders' funds for the year ended 31 December 2002

	2002 \$'000	2001 \$'000
<b>Statement of total recognised gains and losses</b>		
Loss for the year	(4,492)	(1,007)
Exchange differences	(54)	23
	<hr/>	<hr/>
Total recognised losses for the year	(4,546)	(984)
<b>Reconciliation of movements in shareholders' funds</b>		
Loss for the year	(4,492)	(1,007)
Other recognised gains and losses in the year	(54)	23
New share capital subscribed	1,394	-
Share premium	14,754	-
Capital contributions	2,741	1,106
Opening shareholders' funds	1,066	944
	<hr/>	<hr/>
Closing shareholders' funds	15,409	1,066

The notes on pages 21 to 32 form part of these financial statements.

## *consolidated balance sheet* at 31 December 2002

	NOTE	2002 \$'000	2002 \$'000	2001 \$'000	2001 \$'000
<b>Fixed assets</b>					
Tangible assets	10		5,873		2,586
Investments	12		54		-
			5,927		2,586
<b>Current assets</b>					
Debtors	14	1,652		325	
Cash at bank and in hand		8,974		98	
		10,626		423	
Creditors: amounts falling due within one year	15	(1,044)		(1,943)	
Net current assets/(liabilities)			9,582		(1,520)
Total assets less current liabilities			15,509		1,066
Provision for liabilities and charges	16		(100)		-
Net assets			15,409		1,066
<b>Capital and reserves</b>					
Called up share capital	17		4,613		3,219
Share premium	18		14,754		-
Merger reserve	18		(3,204)		(3,204)
Capital contributions	18		7,477		4,736
Profit and loss account deficit	18		(8,231)		(3,685)
Shareholders' funds – equity			15,409		1,066

The financial statements were approved by the Board on 20 May 2003.

G R Featherby  
Director

The notes on pages 21 to 32 form part of these financial statements.

# *company balance sheet* at 31 December 2002

19

	NOTE	2002 \$'000	2002 \$'000
<b>Fixed assets</b>			
Tangible assets	10		195
Investments	11		3,273
			<b>3,468</b>
<b>Current assets</b>			
Debtors	14	4,882	
Cash at bank and in hand		8,814	
		<b>13,696</b>	
<b>Creditors: amounts falling due within one year</b>	15	(256)	
<b>Net current assets</b>			<b>13,440</b>
<b>Total assets less current liabilities</b>			<b>16,908</b>
<b>Capital and reserves</b>			
Called up share capital	17		4,613
Share premium	18		14,754
Profit and loss account	18		(2,459)
<b>Shareholders' funds - equity</b>			<b>16,908</b>

The financial statements were approved by the Board on 20 May 2003.

G R Featherby  
Director

The notes on pages 21 to 32 form part of these financial statements.

# *consolidated cash flow statement*

for the year ended 31 December 2002

	NOTE	2002 \$'000	2002 \$'000	2001 \$'000	2001 \$'000
Net cash outflow from operating activities	20		(5,281)		(899)
Returns on investments and servicing of finance					
Interest received		110		-	
Interest paid		(430)		-	
Net cash outflow from returns on investments and servicing of finance			(320)		-
Capital expenditure and financial investment					
Purchase of tangible fixed assets			(3,207)		(1,314)
Cash outflow before use of liquid resources and financing			(8,808)		(2,213)
Financing					
Secured loan		(1,337)		1,237	
Other loans		186		-	
Capital contributions received		2,741		1,077	
Issues of ordinary share capital (net of issue costs)		16,094		-	
			17,684		2,314
Increase in cash	21		8,876		101

The notes on pages 21 to 32 form part of these financial statements.

# notes forming part of the financial statements for the year ended 31 December 2002

## 1 CORPORATE RESTRUCTURING

During the year the group carried out a corporate restructuring including the introduction of a new holding company, Regal Petroleum plc, incorporated on 17 June 2002.

On 19 September 2002, the company acquired Regal Petroleum (Jersey) Limited, and the entire issued share capital of Regal Petroleum Corporation Limited was acquired by Regal Petroleum (Jersey) Limited. Regal Petroleum Corporation Limited therefore became a wholly owned directly held subsidiary of Regal Petroleum (Jersey) Limited and a wholly owned indirectly held subsidiary of the company.

The corporate restructure has been accounted for as a merger in accordance with FRS6 "Acquisitions and Mergers" (see accounting policies note 2).

## 2 ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards and the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities".

In preparing these financial statements the group has adopted FRS 19 'Deferred Tax' for the first time. Further details are given in note 16.

The following principal accounting policies have been applied:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of Regal Petroleum plc and all its subsidiary undertakings throughout the year ended 31 December 2002, using the merger method of accounting. Further details are disclosed in note 1 above.

### Merger accounting

Where merger accounting is used, the investment is recorded in the company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the group. The results of such a subsidiary are included for the whole period in the year it joins the group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the company and those issued by the company to acquire them is taken to reserves.

### Turnover

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

### Production sharing agreement

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

## Deferred exploration costs

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

## Decommissioning costs

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

## Tangible fixed assets and depreciation

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

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

Fixtures, fittings and equipment	- 25% per annum straight line
Motor vehicles	- 25% per annum straight line
Exploration and development costs	- Depreciated on a unit of production basis

## Impairment policy

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

## Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

## Foreign currencies

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

## notes forming part of the financial statements for the year ended 31 December 2002

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

### Financial instruments

In relation to the disclosures made in note 23:

- short term debtors and creditors are not treated as financial assets or financial liabilities except for the currency disclosures; and
- the group does not hold or issue derivative financial instruments for trading purposes.

### Pension costs

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable. The assets of the scheme are held separately from those of the company in an independently administered fund.

### Operating leases

Annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

### Employee benefit trust

The company is deemed to have control of the assets, liabilities, income and costs of its Employee Benefit Trust (EBT). It has therefore been included in the financial statements of the group and the company in accordance with UITF 13.

The ordinary shares of the company held by the EBT are included in fixed asset investments and written down to the option price over the minimum period of service to which the conditions attached to the shares relate.

The borrowings of the EBT, which have been guaranteed by the company, are included in borrowings with the net financing costs of the EBT being shown as finance charges in the profit and loss account.

The shares are treated as cancelled for the purposes of calculating earnings per share.

### Share based employee remuneration

When shares and share options are granted to employees a charge is made to the group profit and loss account and a reserve created in capital and reserves to record the fair value of the awards in accordance with UITF Abstract 17 "Employee Share Schemes".

## 3 TURNOVER AND NET ASSETS

	2002 \$'000	2001 \$'000
Analysis of turnover by activity:		
Gas Sales	550	-
Condensate Sales	26	-
Other	7	-
	583	-

The turnover of the group arose wholly within the territory of Ukraine and was wholly attributable to the group's primary activity.

# notes

forming part of the financial statements for the year ended 31 December 2002

## 3 TURNOVER AND NET ASSETS continued

Analysis of net assets by geographical origin:

	2002 \$'000	2001 \$'000
United Kingdom	9,204	-
Ukraine	6,205	1,066
	15,409	1,066

## 4 EMPLOYEES

	2002 \$'000	2001 \$'000
Staff costs consist of:		
Wages and salaries	284	208
Social security costs	9	12
Other pension costs	6	-
	299	220

The average number of employees during the period (including directors) was as follows:

	NUMBER	NUMBER
Part time	1	-
Full time	20	11
	21	11

## 5 DIRECTORS

	2002 \$'000	2001 \$'000
Directors' remuneration consist of:		
Fees and emoluments for management services	107	-

There were no directors receiving contributions to their defined contribution pension schemes in the year (2001 - Nil).

## 6 OPERATING LOSS

	2002 \$'000	2001 \$'000
This has been arrived at after charging:		
Listing costs	1,782	-
Depreciation	20	14
Auditors' remuneration - audit services	75	28
- non audit services	603	-
Exchange differences	217	18

**7 INTEREST PAYABLE AND SIMILAR CHARGES**

	2002 \$'000	2001 \$'000
Loan	423	178
Other loan	7	-
	<b>430</b>	<b>178</b>

**8 TAXATION ON LOSS FROM ORDINARY ACTIVITIES**

The tax rate (nil) for the period is different from the standard rate of corporation tax in the UK. The differences are explained below:

	2002 \$'000	2001 \$'000
Loss on ordinary activities before tax	<b>4,492</b>	<b>1,007</b>
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2001 - 30%)	<b>1,348</b>	<b>302</b>
Effects of:		
Expenses not deductible for tax purposes	<b>(1,012)</b>	<b>(293)</b>
Capital allowances for period in excess of depreciation	<b>15</b>	<b>-</b>
Losses carried forward	<b>(351)</b>	<b>(9)</b>
Current tax charge for period	<b>-</b>	<b>-</b>

**9 EARNINGS PER SHARE**

Earnings per share has been calculated on the basis of losses after taxation of \$4,492,000 (2001 - \$1,007,000) and 44,383,562 5p ordinary shares (2001 - 40,000,000 5p ordinary shares on a proforma basis), being the average number of shares in issue during the year to 31 December 2002.

The diluted earnings per share has been calculated using 44,580,076 ordinary shares (2001 - 40,000,000 ordinary shares on a proforma basis), which includes the number of dilutive shares in respect of share options outstanding during the year of 196,514 (2001 - Nil).

# notes

forming part of the financial statements for the year ended 31 December 2002

## 10 TANGIBLE ASSETS

GROUP	FIXTURES, FITTINGS & EQUIPMENT	MOTOR VEHICLES	EXPLORATION & DEVELOPMENT COSTS	TOTAL
	\$'000	\$'000	\$'000	\$'000
<i>Cost or valuation</i>				
At 1 January 2002	17	37	2,572	2,626
Additions	211	95	3,001	3,307
At 31 December 2002	228	132	5,573	5,933
<i>Depreciation</i>				
At 1 January 2002	13	27	-	40
Provided for the period	7	12	1	20
At 31 December 2002	20	39	1	60
<i>Net book value</i>				
At 31 December 2002	208	93	5,572	5,873
At 31 December 2001	4	10	2,572	2,586
<b>COMPANY</b>				
<i>Cost or valuation</i>				
Additions and at end of period	200	-	-	200
<i>Depreciation</i>				
Provided for the period and at end of period	5	-	-	5
<i>Net book value</i>				
At 31 December 2002	195	-	-	195

## 11 FIXED ASSET INVESTMENTS

COMPANY	GROUP UNDERTAKINGS	LISTED INVESTMENTS	TOTAL
	\$'000	\$'000	\$'000
<i>Cost and net book value</i>			
Additions and at 31 December 2002	3,219	54	3,273

Included in group and company listed investments is an amount of \$54,000 (2001 - \$54,000) in respect of own shares (see note 12).

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

NAME	COUNTRY OF INCORPORATION OR REGISTRATION	VOTING RIGHTS AND PROPORTION OF ORDINARY SHARE		NATURE OF BUSINESS
		CAPITAL HELD		
Regal Petroleum (Jersey) Limited	Jersey	100%		Holding company
Regal Petroleum Corporation Limited	Jersey	100%		Oil and natural gas extraction
Regal Petroleum Ukraine Limited	Ukraine	100%		Oil and natural gas extraction
Regal Petroleum International Inc.	Virgin Islands	100%		Dormant

## notes to and forming part of the financial statements for the year ended 31 December 2002

### 12 INVESTMENTS - OWN SHARES

The Employee Benefit Trust (EBT) was established in September 2002 in order to provide for the future obligations of the company for shares awarded under the Share Option Scheme and other share based plans which are conditionally awarded to employees rather than being held under option arrangements. Under the scheme the trustee, Rathbone Trustees Jersey Limited, purchases the company's ordinary shares with amounts loaned by the company which meets the net financing costs. At 31 December 2002, no shares had been conditionally gifted to employees.

GROUP AND COMPANY	SHARES HELD IN TRUST NUMBER	NET NOMINAL VALUE \$000
<i>Cost</i>		
Additions and at 31 December 2002	650,000	54

At 31 December 2002, \$54,000 (2001 - \$Nil) had been loaned by the company to the EBT to finance the purchase of ordinary shares. This amount is included in other loans.

### 13 LOSS FOR THE FINANCIAL YEAR

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The group loss for the period includes a loss after tax of \$2,458,975, for the period 17 June 2002 to 31 December 2002, which is dealt with in the financial statements of the parent company.

### 14 DEBTORS

	GROUP 2002 \$'000	GROUP 2001 \$'000	COMPANY 2002 \$'000
Trade debtors	6	-	6
Amounts due from group companies	-	-	4,482
Other debtors	983	325	288
Prepayments and accrued income	663	-	106
	1,652	325	4,882

All amounts shown under debtors fall due for payment within one year.

## notes forming part of the financial statements for the year ended 31 December 2002

### 15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP 2002 \$'000	GROUP 2001 \$'000	COMPANY 2002 \$'000
Loan (secured)	-	1,337	-
Other loans	185	-	54
Trade creditors	277	-	122
Other creditors	328	-	-
Taxation and social security	12	-	12
Accruals and deferred income	242	606	68
	<u>1,044</u>	<u>1,943</u>	<u>256</u>

The secured loan at 31 December 2001 was repaid in the year ended 31 December 2002 and bore interest at 30%. No interest is paid on the other loans.

### 16 PROVISIONS FOR LIABILITIES AND CHARGES

	PROVISION FOR DECOMMISSIONING COSTS \$'000
<b>Group</b>	
Balance at 1 January 2002	-
Capitalised decommissioning costs	<u>100</u>
Balance at 31 December 2002	<u>100</u>

In the year ended 31 December 2002, a provision of \$100,000 has been recognised for decommissioning costs. These costs relate to the estimated liability for the removal of production facilities and site restoration at the end of the production life for a field. These costs are expected to be incurred between 2017 and 2022. The provision has been estimated based on current prices.

The group has changed its accounting policy in respect of deferred tax following adoption of FRS 19 'Deferred Tax' this year. Under the group's previous accounting policy deferred tax was only recognised to the extent that it was probable that an asset or liability would crystallise. The group's new accounting policy is set out in note 2. There has been no effect of this accounting policy change on the prior year's results.

No provision has been made for deferred taxation because of the availability of losses. At 31 December 2002 there were approximately \$360,000 of tax losses available in the various jurisdictions in which the group operates.

### 17 SHARE CAPITAL

	AUTHORISED NUMBER	\$'000
Ordinary shares of 5p each (Approximately 8c each)	<u>80,000,000</u>	<u>6,440</u>

**17 SHARE CAPITAL continued**

	ALLOTTED, CALLED UP AND FULLY PAID NUMBER	\$'000
Ordinary shares of 5p each (Approximately 8c each)	57,316,667	4,613

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

On 19 September 2002, the existing ordinary shares of £1 were sub-divided into 20 ordinary shares of 5 pence each and the authorised share capital was increased to £4,000,000 by the creation of an additional 79,980,000 shares of 5 pence each. On this same date 650,000 ordinary shares were placed into an Employee Benefit Trust.

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

On 27 September 2002, Regal Petroleum plc listed on the AIM market with the issue of 16,666,667 ordinary shares at 60 pence.

**Senior Executive Savings Related Share Option Scheme**

At 31 December 2002 the following share options were outstanding in respect of the ordinary shares:

YEAR OF GRANT	NUMBER OF SHARES	PERIOD OF OPTION	PRICE PER SHARE
2002	250,000	No earlier than 19 June 2004	60p
2002	125,000	No earlier than 19 September 2003	60p
2002	875,000	No earlier than 19 March 2003	60p
2002	45,000	Indefinite	66.5p

**18 CAPITAL AND RESERVES**

	SHARE CAPITAL \$'000	SHARE PREMIUM \$'000	MERGER RESERVE \$'000	CAPITAL CONTRIBUTIONS \$'000	PROFIT AND LOSS ACCOUNT \$'000	TOTAL \$'000
<b>Group</b>						
Regal Petroleum Corporation at 31 December 2001	15	-	-	4,736	(3,685)	1,066
Merger adjustment	3,204	-	(3,204)	-	-	-
Regal Petroleum plc at 1 January 2002	3,219	-	(3,204)	4,736	(3,685)	1,066
Issued shares	1,394	14,754	-	-	-	16,148
Capital contribution during 2002	-	-	-	2,741	-	2,741
Loss for the year	-	-	-	-	(4,492)	(4,492)
Exchange differences recognised in the year	-	-	-	-	(54)	(54)
At 31 December 2002	4,613	14,754	(3,204)	7,477	(8,231)	15,409

## notes forming part of the financial statements for the year ended 31 December 2002

### 18 CAPITAL AND RESERVES continued

	SHARE CAPITAL \$'000	SHARE PREMIUM \$'000	MERGER RESERVE \$'000	CAPITAL CONTRIBUTIONS \$'000	PROFIT AND LOSS ACCOUNT \$'000	TOTAL \$'000
<b>Company</b>						
Regal Petroleum plc at 17 June 2002	-	-	-	-	-	-
Issued shares	4,613	14,754	-	-	-	19,367
Loss for the year	-	-	-	-	(2,459)	(2,459)
At 31 December 2002	4,613	14,754	-	-	(2,459)	16,908

### 19 COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2002, the group had annual commitments under non-cancellable operating leases as set out below:

	2002 LAND AND BUILDINGS \$'000	2001 LAND AND BUILDINGS \$'000
Operating leases which expire:		
In two to five years	60	-

### 20 RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 \$'000	2001 \$'000
Operating loss	(4,172)	(829)
Depreciation	20	14
Exchange differences	(54)	18
Increase in debtors	(1,381)	(259)
Increase in creditors	306	157
Net cash outflow from operating activities	(5,281)	(899)

### 21 RECONCILIATION OF NET CASH OUTFLOW TO MOVEMENT IN NET DEBT

	2002 \$'000	2001 \$'000
Increase in cash in the year	8,876	101
Cash movements relating to debt	1,098	(1,180)
Change in net debt resulting from cash flows	9,974	(1,079)
Other non cash changes	-	(178)
Movement in net debt in the year	9,974	(1,257)
Net debt at beginning of year	(1,239)	18
Net debt at end of year (note 22)	8,735	(1,239)

**22 ANALYSIS OF NET DEBT**

	AT 1 JANUARY 2002 \$'000	CASH FLOW \$'000	OTHER NON-CASH CHANGES \$'000	AT 31 DECEMBER 2002 \$'000
Cash in hand and at bank	98	8,876	-	8,974
Loan due within one year	(1,337)	1,337	-	-
Other loans due within one year	-	(239)	-	(239)
Net debt	(1,239)	9,974	-	8,735

**23 FINANCIAL INSTRUMENTS**

The group's financial instruments during each period comprised a mixture of loans, cash at bank and various items such as debtors and creditors that arise directly from its operations. The group does not hold any derivative financial instruments and does not trade in financial instruments. The group has bank accounts denominated in British Pounds, US dollars, Australian dollars and Ukrainian Hryvnia. As at 31 December 2002 the group does not have long term borrowings. The main future risks arising from the group's financial instruments are currency risk and liquidity risk.

**Currency risk**

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

	NET FOREIGN CURRENCY MONETARY ASSET		
	GBP	UKRH	AUSS
Material functional currency of group operations			
US\$'000	5,620	1,136	3

**Liquidity risk**

As regards liquidity, the group's objective throughout each period has been to ensure continuity of funding. Operations to date have primarily been financed through capital contributions. Other sources of finance have been secured loans, other loans and the issue of share capital.

**Fair values of financial instruments**

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

**24 RELATED PARTY TRANSACTIONS**

The Group has previously used the services of Featherby Reilly, a chartered accountancy firm based in Australia, where Glenn Featherby (Finance Director) serves as a partner. During the years ended 31 December 2001 and 31 December 2002, Featherby Reilly charged the group \$Nil and \$27,915 respectively. The amounts due to Featherby Reilly at the end of each of these years were \$5,927 and \$Nil respectively.

During 2002 Glenn Featherby acted as a consultant to the Group and charged the Group travel and subsistence fees of \$60,993. The amount due at the end of the year was \$Nil. In addition Glenn Featherby loaned the Group \$50,000 during the year ended 31 December 2002. There was \$Nil outstanding at the end of the year.

Mark Reilly, also a partner in Featherby Reilly, loaned the group \$9,101 during the period ended 31 December 2002, of which there was \$Nil outstanding at the end of the year.

**24 RELATED PARTY TRANSACTIONS continued**

Greg Lee (Technical Director) loaned the group \$103,602 during the year ended 31 December 2002. Accrued interest on this amount was \$2,055. There was \$Nil outstanding at the end of the year.

Prior to the listing of Regal Petroleum plc (22 September 2002), Greg Lee was employed as a consultant to the Group. Consulting Fees of \$26,190, and travel & subsistence fees of \$8,956 were charged. There is no amount outstanding at the end of the year.

During the year ended 31 December 2002, goods and services to the value of \$5,011 were paid for by the Group on behalf of European Goldfields Limited in the form of a loan. European Goldfields is a mining company based in the UK and Canada, in which Frank Timis (Executive Chairman) is the former Chairman. An amount of \$137 was outstanding at the end of the year.

The Group used the services of Rathbones, a solicitor firm based in Jersey, where Kiran Patel and Nicola Claire Bennett are serving as partners. Mr Patel is a director of Regal Petroleum (Jersey) Limited and Regal Petroleum Corporation Limited. Ms Bennett was a director of both companies until she resigned during the year ended 31 December 2002. During the year ended 31 December 2002, Rathbones charged the Group \$33,846. There is no amount outstanding at the end of the year.

The Group also used the services of Insinger de Beaufort during the year ended 31 December 2002. Insinger de Beaufort is a solicitor firm based in Jersey, where Cornel Baptiste, John Perkins, and Claudette Francis serve as partners. Ms Baptiste, Mr Perkins and Ms Francis are directors of Regal Petroleum International Inc. Insinger de Beaufort charged the Group \$5,808 in fees, of which there was \$Nil outstanding at the end of the year.

# *notice of annual general meeting*

## NOTICE OF MEETING

The first Annual General Meeting of Regal Petroleum plc will be held at Stratton Suite, Holiday Inn - Mayfair, 3 Berkeley Street, London W1J 8NE, United Kingdom on 1 July 2003 at 11.00am. The business of the meeting will be as follows:

## ORDINARY BUSINESS

### Resolution 1 - Adoption of audited accounts

THAT the accounts and reports of the directors and of the auditors for the year ended 31 December 2002 be received and adopted.

### Resolution 2 - Re-election of retiring director

THAT Mr V F Timis, who has been appointed as a director since 29 July 2002, be re-elected as a director.

### Resolution 3 - Re-election of retiring director

THAT Mr G Nolte, who has been appointed as a director since 1 March 2003, be re-elected as a director.

### Resolution 4 - Re-election of retiring director

THAT Mr G R Featherby, who has been appointed as a director since 29 July 2002, be re-elected as a director.

### Resolution 5 - Re-election of retiring director

THAT Mr W H Humphries, who has been appointed as a director since 19 September 2002, be re-elected as a director.

### Resolution 6 - Re-election of retiring director

THAT Mr F D Wheatley, who has been appointed as a director since 19 September 2002, be re-elected as a director.

### Resolution 7 - Re-appointment and remuneration of auditors

THAT BDO Stoy Hayward be re-appointed as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the shareholders in accordance with the provisions of the Companies Act 1985 ("the Act") and their remuneration be fixed by the Board.

## SPECIAL BUSINESS

As special business, to consider and, if thought fit, to pass the following resolutions, of which resolution number 8 shall be proposed as an ordinary resolution and resolution number 9 as a special resolution.

### Resolution 8 - Directors' authority to allot relevant securities

THAT the directors be and they are hereby generally and unconditionally authorised pursuant to section 80 of the Act to exercise all powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) provided that:

- (a) the authority shall be in substitution for any equivalent authority which may have been given to the directors prior to the date of the passing of this resolution;
- (b) this authority shall be limited to relevant securities up to an aggregate nominal amount of £955,000;
- (c) and unless previously renewed, revoked, varied or extended, this authority shall expire at the earlier of the date which is 15 months from the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

## *notice of annual general meeting*

### **Resolution 9 - Disapplication of pre-emption rights**

THAT the directors be and they are empowered pursuant to section 95(1) of the Act to allot equity securities (as defined in section 94(2) of the Act) of the Company for cash pursuant to the authority of the directors under section 80 of the Act conferred by resolution 8 as if section 89(1) of the Act did not apply to such allotment provided that:

- (a) the power conferred by this resolution shall be limited to:
- (i) the allotment of equity securities in connection with an invitation or offer of equity securities to the holders of ordinary shares in the capital of the Company in proportion to their respective holdings of such shares or in accordance with the rights attached to such shares but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or as a result of legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in any territory; and
  - (ii) the allotment, otherwise than pursuant to paragraph (a)(i) above, of equity securities up to an aggregate nominal value equal to £143,290;
- (b) unless previously renewed, revoked, varied or extended this power shall expire on the earlier of the conclusion of the next annual general meeting of the Company and the date falling 15 months after the date of the passing of this resolution except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

### **By order of the Board**

S P West  
Secretary  
49 Albemarle Street  
London W1S 4JR  
United Kingdom

### **NOTES**

1. A member of the Company entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in that member's place. A proxy need not also be a member. Completion and return of a Form of Proxy will not preclude a member from attending and voting at the Annual General Meeting should the member so decide.
2. To be valid, the enclosed Form of Proxy and the Power of Attorney or other authority (if any) under which it is signed (or a copy certified notari ally, or in some other manner approved by the Board) must be completed and returned so as to reach the Company's registrars, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgewater Road, Bristol BS99 7NH, United Kingdom by 11.00am on 29 June 2003.
3. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the number of votes a member may cast), members must be entered on the Register of Members of the Company by 11.00am on 29 June, 2003.
4. In the case of joint holders, the signature of only one of the joint holders is required on the Form of proxy, but the vote of the senior (by order in the register of members) who tenders a vote will be accepted to the exclusion of the others.

# *explanatory notes* to the notice of the annual general meeting

The 2003 Annual General Meeting of Regal Petroleum plc will be held at Stratton Suite, Holiday Inn - Mayfair, 3 Berkeley Street, London W1J 8NE, United Kingdom on 1 July 2003 at 11.00am to consider the following matters:

## **ORDINARY BUSINESS**

### **Resolution 1**

The Board is required to present to the meeting the accounts, and the reports of the directors and the auditors, for the year ended 31 December 2002 which may be found on pages 13 to 32 of this document. Resolutions 2 to 6 deal with the re-election of directors under the requirements of the Articles of Association. Details of the directors are shown on page 5 of this document.

### **Resolutions 2, 3, 4, 5 and 6**

Article 82 of the Company's Articles of Association requires any director appointed by the Board to retire at the next Annual General Meeting. The following directors are proposed by the Board for election:

Mr V F Timis  
Mr G Nolte  
Mr G R Featherby  
Mr W H Humphries  
Mr F D Wheatley

### **Resolution 7**

The resolution proposes the re-appointment of BDO Stoy Hayward as the auditors of the Company and, in accordance with standard practice, gives authority to the Board to determine their remuneration.

## **SPECIAL BUSINESS**

### **Resolution 8**

Resolution 8 grants the directors authority to allot shares in the capital of the Company up to an aggregate nominal value of £955,000, representing approximately one third of the nominal value of the issued ordinary share capital of the Company as shown in the latest audited accounts of the Company. The directors do not have any present intention of exercising this authority but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities. Unless renewed, revoked, varied or extended, this authority will expire at the end of 15 months from the date of passing of the resolution or at the conclusion of the next AGM of the Company, whichever is the earlier.

### **Resolution 9**

Resolution 9 empowers the directors to allot equity securities for cash other than in accordance with the statutory pre-emption rights which require a company to offer all allotments of equity shares for cash first to existing shareholders in proportion to their holdings, in connection with a rights issue and otherwise up to a maximum nominal amount of £143,290, representing approximately 5 per cent of the nominal value of the issued share capital of the Company as shown in the latest audited accounts of the Company. Unless renewed, revoked, varied or extended, this authority will expire at the end of 15 months from the date of passing of the resolution or at the conclusion of the next AGM of the Company, whichever is the earlier.

### **Action to be Taken**

Each shareholder is entitled to appoint one or more proxies to attend and, on a poll, vote instead of that shareholder. A proxy need not be a shareholder.

Shareholders should kindly complete and return the enclosed Form of Proxy as soon as possible, whether or not they expect to be able to attend the Annual General Meeting. Return of a Form of Proxy will not prevent a shareholder from attending and voting in person at the meeting if that shareholder so wishes.

The Board is of the opinion that these proposals are in the best interests of both the Company and its shareholders. Accordingly they recommend all shareholders to vote in favour of the resolutions, as each director intends to do in respect of his own beneficial shareholdings.

