beginning exploration

Regal commenced drilling the first Suceava Block exploration well in 2004 and is due to commence the first Barlad Block exploration well in 2005.

Romania highlights

Government ratification of the 4,103km^2 exploration, development and production licence for Suceava Block.

Comprehensive seismic survey of the Suceava Block was completed in November 2004.

Drilling of the first exploration well on the Suceava Block commenced in December 2004.

Suceava Block summary

The Suceava Block is a 4,103km^2 exploration, development and production licence area located on the Moldavia Platform which contains several large commercial gas and condensate fields. The Suceava Block is located adjacent to and on the same geological trend as the Roman-Secuieni gas field, the largest commercial gas field in Romania, operated by Romgaz (the Romanian national gas company).

Formal government ratification of the Company's licence to the Suceava Block was achieved in 2004.

Barlad Block summary

The Barlad Block is one of the largest exploration, development and production licence blocks in Romania with an area of 6,285km^2 and is located on the Moldavia Platform. The Barlad Block is on a south eastward extension of the Company's Suceava Block.

Formal government ratification of the licence for the Barlad Block was achieved in January 2005.

Terms of licences

The exploration, development and production licences are for a 20 year term and provides the Company with exclusive hydrocarbon exploration, development and production rights over the Suceava Block and Barlad Block areas.

Suceava Block – exploration

The Suceava Block is situated in the Moldavia Platform. The geological setting includes a Precambrian basement covered by the Paleozoic, Mesozoic (Upper Jurassic – Cretaceous) and Tertiary (Eocene and Miocene) sedimentary sequences. Two main phases of structural evolution are observed: a pre-Carpathian extensional phase and post-Carpathian compressional phase which have resulted in a range of tectonic elements.

A comprehensive seismic survey of the area was completed in November 2004 which confirmed three well locations and indicated other structures for future drilling to confirm the volume and deliverability of the identified fields. Drilling of the first exploration well SE-1 commenced in December 2004 and was successfully completed in April 2005. Further seismic data is being acquired and analysed in 2005 to obtain better regional understanding and indicate additional well locations.

Barlad Block – exploration

The geological setting of the Barlad Block includes two tectonic units: the Moldavian Platform in the northern part where the Company believes that gas accumulations can be proved (similar to those in the Suceava licence) and the Barlad Depression in the southern part where the Company believes that oil accumulations can be discovered.

Between 1953 and 1987 a large number of exploration wells were drilled on the Barlad Block, with gas shows in the northern part of the block and oil shows in the southern part of the block. In addition numerous 2-D seismic survey lines were carried out on the Barlad Block between 1996 and 1998.

Approximately 1,000km of existing seismic data is currently being reprocessed and additional new seismic data is being acquired and processed during 2005 in order to determine the depositional history of the block. This will improve lead structure identification and refine mapping of prospects to allow well locations to be selected. The first Barlad exploration well is planned for late 2005.

Well testing SE-1, Romania.

Infrastructure
Both the Suceava Block and Barlad Block are located near existing mature fields and accordingly an established gas transportation infrastructure exists and should be able to be utilised at low cost if wells are brought into production.

Future strategy
Following the successful drilling of Regal's first exploration well on the Suceava Block resulting in a gas discovery, the Company is currently finalising a drilling programme in the Suceava Block. This drilling programme will focus on the highly prospective gas bearing Sarmatian interval and it is expected that a series of shallow, low cost exploration/ development wells will be drilled in 2005 and 2006 to test, confirm and evaluate recoverable resources.

The first Barlad exploration well is planned for late 2005 once seismic data has been reprocessed and interpreted and well locations have been selected.

4,103km^2
Suceava Block size

6,285km^2
Barlad Block size

increased investment

Regal has increased its working interest in Ukraine from 75% to 100% through the awarding of two new 20 year production licences. The emphasis now is to achieve higher production levels.

Ukraine highlights

The drilling of production well MEX102 was completed in March 2004 with a high condensate flow rate.

Awarded 100% interest in two new 20 year production licences in Ukraine. These licences replace the exploration licences under which Regal previously operated.

Construction of an extra storage plant to cope with the unexpectedly high condensate flow from well MEX102 commenced in Q3 2004 and was completed in Q4 2004.

Average daily production in Ukraine in 2004 was 1,368 boepd (2003: 993 boepd).

New production licences

In June 2004 Regal was awarded a 100%. interest in two new production licences in Ukraine.

Production Licence No 3334, issued to Regal by the State Committee on Natural Resources of Ukraine on 30 June 2004, is for the Mekhediviska-Golotovschinska gas field ('MEX-GOL'), which is located 15km north-west of Lokvitsa and approximately 220km east of Kiev. The MEX-GOL field covers an area of 129km^2.

Production Licence No 3335, also issued to Regal on 30 June 2004, is for the Svyrydivske gas field ('SV'), which is to the east and adjacent to the MEX-GOL area. The SV field covers an area of 140km^2.

Both licences are valid for 20 years and allow for the full exploitation and production of hydrocarbons from the MEX-GOL and SV fields, which contain proven and probable reserves of 882 billion cubic feet of gas and 36 million barrels of condensate (193 MMboe combined).

Regal previously operated and produced from the above gas fields through a 75% interest in a joint venture partnership with the State controlled exploration and drilling company, Chernigiv Nafto Gaz Geologiya, which held a pilot production licence on behalf of the joint venture. The pilot licence allowed for production of up to 10% of the total reserves whilst the research was being completed.

Regal is the first foreign company to be awarded production licences in Ukraine for the exploitation and production of gas and condensate.

Production

Average daily production in Ukraine in 2004 was 1,368 boepd (2003: 993 boepd) from four wells on production: MEX102, MEX3, GOL1 and GOL2. Regal will continue to increase production by exploiting western oil technology and by performing well interventions on the MEX-GOL field.

Development

Production well MEX102 was drilled to its target depth of 5,230m and connected to the treatment plant in Q2 2004. The well flowed condensate on a 9mm choke at a rate of 1,462 barrels per day which greatly exceeded the expected flow rate of 157 barrels per day and necessitated modifications to existing plant.

Regal's development plan is to work-over existing wells, where it is assessed to be economically viable, and to drill new wells in prospective target areas.

Facilities

Regal owns and operates its own gas and condensate treatment plant together with a 13.2km high capacity export pipeline which connects to the international export trunk line to Western Europe. The plant currently has a capacity of 35 million cubic feet of gas per day and the pipeline has a capacity of 141 million cubic feet of gas per day.

Workover rig, Ukraine.

Modifications to the separation and heating systems in order to increase the condensate capacity of the plant have commenced. In addition, the construction of an extra storage plant to cope with the unexpectedly high condensate flow from well MEX102 commenced in Q3 2004 and was completed in Q4 2004.

Independent reserves audit
A full independant reserve audit by Ryder Scott Company, L.P. is being carried out on the Ukraine reserves. This reserves audit will incorporate the results of wells drilled in 2003 and 2004 and recent technical evaluations.

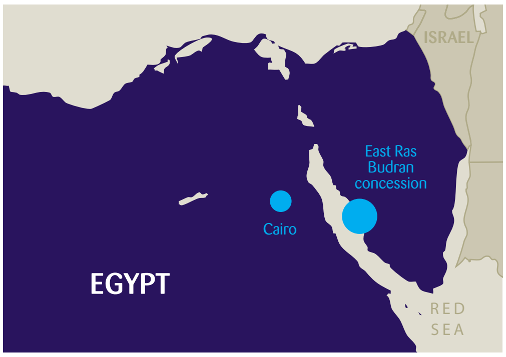
Future strategy
The emphasis in Ukraine is to optimise field potential and achieve higher production levels so the Company can achieve substantially higher revenues.

1,368boepd
(2003: 993 boepd)

$7.6m
Revenue 2004
(2003: $2.8m)

exploring opportunities

The acquisition of a concession in one of the most prolific petroleum provinces in the world provides Regal with an exciting exploration opportunity.



Egypt highlights

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

The existing data for the concession area has been evaluated and four prospective structures have been identified.

Seismic data is currently being re-processed and interpreted and exploration drilling is expected to commence in the second half of 2005.

Onshore exploration concession

In 2004 Regal acquired an exploration concession in the East Ras Budran area, Gulf of Suez, Egypt. The concession acquisition was formally approved by the Egyptian Government in December 2004.

The concession provides Regal with exclusive exploration rights in the East Ras Budran area for an initial period of three years with the right to extend this for a further four years. In the event that a commercial oil discovery is made in the concession area, Regal has the right (subject to certain conditions) to convert the concession into a 20 year development and production lease. Under the terms of the concession Regal is committed to spending a total of $4 million during the exploration stage.

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

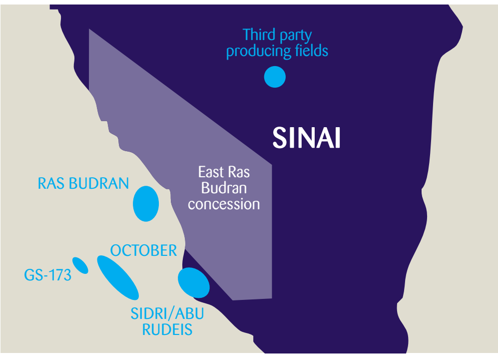
Exploration

The existing data for the concession area was evaluated in 2004 and four prospective structures have been identified.

Seismic data is currently being re-processed and interpreted and exploration drilling is expected to commence in the second half of 2005.

Future strategy

The Company is committed to drilling an exploration well in the second half of 2005. The results of this first well will determine the strategy going forward.



3 years
Initial term of concession

100%
Working interest in concession

focused on increasing production

Regal is committed to increasing production and cash flow in order to finance an increasing proportion of its exploration costs from self generated cash.

1,506,945 boe

Total production for 2004 (2003: 576,781 boe*)

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

- Average daily production in Greece was 2,761 bopd (2003: 3,061 bopd*) from the Prinos and Prinos North fields.
- Average daily production in Ukraine was 1,368 boepd (2003: 993 boepd) from four wells on production.

"The quality of the Company's assets, all of which are located in proven hydrocarbon regions, will underpin the future growth of the Company."

1,007,724 bbls
Total crude oil production 2004
(2003: 214,516 bbls*)

1,862 MMcf
Total gas production 2004
(2003: 1,944 MMcf)

167,508 bbls
Total condensate production 2004
(2003: 16,774 bbls)

investing in assets

Financial highlights

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

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

Loss for the year of $13.7 million (2003: $2.9 million).

Depreciation charge for the year of $7.7 million (2003: $2.2 million).

Hedging charge for the year of $11.0 million (2003: $nil).

Capital cash expenditure of $71.6 million (2003: $16.8 million).

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

Net cash at year end of $25.6 million (2003: $28.5 million).

Turnover

Turnover for the year was $42,459,000 generated from the sale of gas and condensate production from wells MEX102, MEX3, GOL2 and GOL1 in Ukraine ($7,633,000) and the sale of oil and sulphur production from Kavala in Greece ($34,826,000).

All gas and condensate production in Ukraine was sold locally at an average price of $50 per thousand cubic metres of gas and $28 per barrel of condensate.

Kavala sells its oil at a price approximately equal to the prevailing IPE Brent price less a discount of approximately $3 per barrel. Sulphur, being a bi-product of the oil production, is sold locally at market prices.

Loss for the financial year

The loss after tax and after minority interests of $13.7 million included a loss on crude oil hedging of $11.0 million (2003: $nil) and a larger than anticipated charge for depreciation on the Greek assets of $5.5 million (2003: $2.1 million).

The crude oil hedging loss resulted from a 12 month contract taken out for 2004 to hedge 50% of forecast Greek production of 5,000 barrels of oil a day at IPE Brent of $30.50. Higher oil prices contributed to a larger hedge loss in the second half of 2004.

For the year ended 31 December 2004 the directors consider, for financial statement and disclosure purposes, that the previous Greek remaining recoverable reserves figure of 80 million was not appropriate and therefore the Company has decided to revert to 22 million barrels, as at 2003, remaining recoverable reserves in Greece. The Company calculates depreciation on its exploration and development costs on a unit of production basis and accordingly this revision to the Greek reserves has contributed to a larger than anticipated charge of $5.5 million for depreciation on the Greek assets.

Institutional placing

In March 2004, Regal successfully raised $69.8 million net of expenses through an institutional placing of 13,333,334 shares at 300 pence per share. Part of these funds were applied against the drilling of production wells in the Prinos field and an exploration well in the Kallirachi oil prospect.

"With an institutional placing completed subsequent to year end in April 2005, Regal is well placed to continue the development and growth of its projects in Ukraine, Greece, Romania and Egypt."

316%

Increase in turnover (2004: $42.5m – 2003: $10.2m)*

215MMboe

Over 215 MMboe of proved and probable reserves

Following the institutional placement, the Company had a total of 116,374,868 shares in issue at 31 December 2004 (31 December 2004: 100,541,534 shares).

Cash flow

Net cash outflow from operating activities was $5,901,000 (2003: outflow $1,060,000).

The capital expenditure outflow of $71,586,000 (2003: $16,766,000) mainly represented drilling expenditure on the Company's assets in Greece.

As at 31 December 2004, the Group had no long-term bank borrowings.

As at 31 December 2004, the Group had total cash balances of $25,643,000 (2003: $28,539,000).

Financial risk

The main financial 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.

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

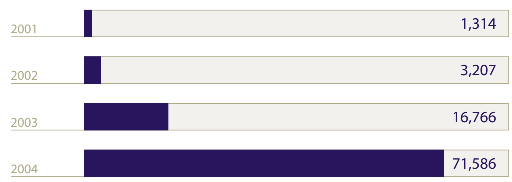
To minimise exchange rate risks, Regal attempts to match currency receipts and payments wherever possible. Regal also seeks to retain sufficient liquidity, either in the form of cash or maturing deposits, to manage the Group's ongoing programmes.

Summary

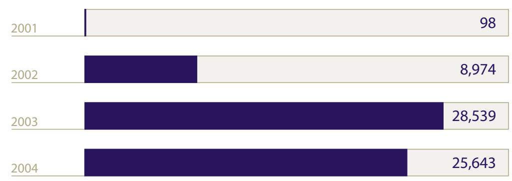
The financial results for the year to 31 December 2004 after accounting for crude oil hedging and additional depreciation on Greek assets are in line with the Company's expectations.

With an institutional placing completed subsequent to year end in April 2005, Regal is well placed to continue the development and growth of its projects in Ukraine, Greece, Romania and Egypt.

Roger Phillips
Finance Director



Total capital expenditure ($000)



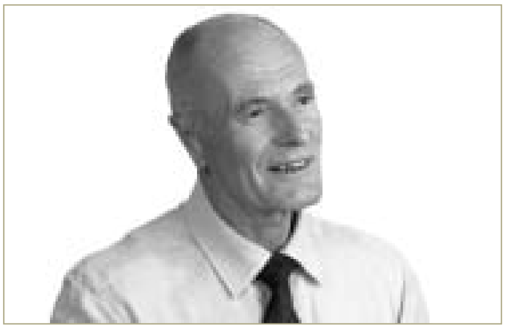
Total cash reserves ($000)

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

board of directors

1.
Richard Hardman
Exploration Director

2.
Roger Phillips
Finance Director



3.
Dr Rex Gaisford
Chief Executive Officer

4.
Sir Peter Heap
Non-executive Chairman

5.
Lord St John of Bletso
Non-executive Director

Subsequent to 31 May 2005:
Sir Peter Heap and Mr Richard Hardman were appointed to the Board on 15 June 2005.
Mr V F Timis resigned from the Board on 7 June 2005.
Mr W H Humphries resigned from the Board on 10 June 2005.

1. Richard Hardman
Exploration Director
Richard Hardman is an explorationist and a qualified Geologist with over 40 years' industry experience with oil majors including 10 years at BP, 11 years at AMOCO, three years at Superior Oil and 18 years at Amerada Hess. Since 2001 Richard has been working as a senior consultant to various oil and gas companies including Enterprise Oil, Neptune, FX Energy Inc and Atlantic Petroleum UK Limited. He is the former Chairman of both the Petroleum Group of the Geological Society and the Petroleum Exploration Society of Great Britain and the former President of the Geological Society.

2. Roger Phillips
Finance Director
Roger Phillips is a Chartered Accountant with over 25 years' experience in the oil and gas industry including over 19 years at Amerada Hess. Most recently, Roger was the Vice President and Director of Amerada Hess in London where he was in charge of finance for Europe, North Africa and Asia.

3. Dr Rex Gaisford
Chief Executive Officer
Dr Gaisford is a qualified mechanical engineer with over 30 years' experience in the oil and gas industry, where he specialised in large scale project development, operations and business development, including 12 years at Amerada Hess, where he was Executive Vice-President and Director before retiring in 2000. Other previous appointments include three years as Managing Director of Beatrice Resources Limited, seven years as General Manager of Britoil PLC and six years as a Non-executive Director of the UK Atomic Energy Authority (UKAEA).

4. Sir Peter Heap
Non-executive Chairman
Sir Peter Heap is a former specialist adviser to numerous companies including HSBC Investment Bank, Amerada Hess and the BOC Group. Prior to his advisory roles Sir Peter was with the Foreign & Commonwealth Office of the British Government for over 36 years, including being the Ambassador to Brazil (1992–95), Senior Trade Commissioner in Hong Kong (1989–92), British High Commissioner, Bahamas (1983–86), as well as the Head of Energy Department (1980–83).

5. Lord St John of Bletso
Non-executive Director
Lord St John is a qualified solicitor with a Masters in Maritime Law and is a Crossbench Member of the House of Lords and a Member of the House of Lords European Union Sub-committee A on Trade, Finance and Foreign Affairs. Lord St John is currently the Non-executive Chairman of Estate and General and Chairman of the Governing Board of Certification International. He is the former Managing Director of Globix UK and was formerly a Non-executive Director of WMRC plc and Pecaso Ltd. He is currently retained as a consultant to Merrill Lynch, specialising in parliamentary liaison and emerging markets, and a consultant to Globix UK, a global internet service provider.

corporate governance statement

as at 31 December 2004

Companies on the Alternative Investment Market of the London Stock Exchange are not required to comply with the Combined Code and due to its size the Company is not in full compliance.

The Board

The Board of the Company consisted of two 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 the Company. 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 the Company at its expense. All directors are subject to election by shareholders at the first opportunity following their appointment. In addition, directors will retire by rotation and stand for re-election by shareholders at least once every three years in accordance with the Company's articles of association.

The non-executive directors are interested in ordinary shares and hold options in respect to 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 the Company's general policy on executive and senior management remuneration and determining specific remuneration packages for executive directors.

The Remuneration Committee comprised: W H Humphries and Lord St John of Bletso.

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 comprised: W H Humphries and Lord St John of Bletso.

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 2004 through regular Board meetings.

Communication with shareholders

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

The third annual general meeting of the Company will provide an opportunity for the directors 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.

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.

directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activities

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, Greece, Romania and Egypt. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in note 11 to the accounts.

During 2004 the Company achieved major milestones in all assets with the successful increase in the commercial interest in the Greek operations through the investment in preference shares, the awarding of 100% owned 20 year production licences in Ukraine, the government ratification of the Suceava Block in Romania and the acquisition of an onshore exploration concession in Egypt.

The Company has experienced both positive and negative operational results during the first part of 2005. On the one hand, the Company successfully completed the drilling of its first exploration well on the Suceava Block resulting in a significant gas discovery in Romania, whilst on the other hand the second Kallirachi well was completed in Greece with flow rates that were deemed non-commercial.

Proposed dividend

The directors do not recommend the payment of a dividend.

Policy and practice on payment of creditors

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 (2003: 30).

Directors and directors' interests

The directors who held office during the year were as follows:

V F Timis	
W H Humphries	
Lord St John of Bletso	
R S C Phillips	(appointed 1 September 2004)
G R Featherby	(resigned 1 September 2004)
G Nolte	(resigned 20 October 2004)
N Loutsigkas	(resigned 22 June 2004)

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of directors' interests:

	Class of share	Interest at end of year	Interest at start of year or date of appointment
V F Timis[1,2]	Ordinary	9,080,887	8,530,887
R S C Phillips	Ordinary	4,472	–
W H Humphries	Ordinary	400,000	–
Lord St John of Bletso	Ordinary	6,500	6,500

1 Forest Nominees Limited owns 8,330,887 ordinary shares in the Company as nominee on behalf of CA Fiduciary Services Limited the sole trustee of The Timis Trust. V F Timis is a beneficiary of The Timis Trust.
2 Rathbone Trustees Jersey Limited and Rathbone Fiduciaries Jersey Limited own 600,000 ordinary shares in the Company as trustee of The FT Settlement. V F Timis is a beneficiary of The FT Settlement.

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of other Group companies.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below:

	At start of year	Number of options during the year Granted	Exercised	At end of year	Exercise price	Average exercise price of options exercised £	Market price at date of exercise £	Date from which exercisable £	Expiry date
V F Timis	1,200,000	–	–	1,200,000	0.763	–	–	19/09/02	12/11/13
R S C Phillips	–	250,000	–	250,000	3.250	–	–	31/08/05	01/11/14
W H Humphries	850,000	500,000	(850,000)	500,000	3.250	0.680	2.580	31/12/04	01/11/14
Lord St John of Bletso	500,000	–	–	500,000	0.835	–	–	04/08/04	04/02/14

Substantial shareholders

The following parties had interests of greater than 3% of their issued share capital of the Company at 31 December 2004:

Substantial shareholder	Number of shares	% of issued ordinary share capital
Caldwell Associates Ltd[1]	12,421,102	10.67
Hendersen Global Investors	12,304,202	10.57
Commerzbank AG	11,963,495	10.28
Merrill Lynch Investment Managers Group Limited	11,501,125	9.88
Fidelity Investments Limited	6,683,565	5.74
Artemis Investment Management	5,825,000	5.01
The Capital Group Companies Inc	4,463,127	3.84
Lansdowne Partners Limited Partnership	4,063,127	3.49
F & C Asset Management plc	3,711,186	3.19
Morgan Stanley Securities Limited	3,680,678	3.16

1 Included within the shareholding of Caldwell Associates Ltd is 8,330,887 ordinary shares owned by Forest Nominees Limited as nominee on behalf of CA Fiduciary Services Limited the sole trustee of The Timis Trust. V F Timis is a beneficiary of The Timis Trust.

Statement of 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 and of the profit or loss 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Political and charitable contributions

The Group made no political contributions or donations to UK charities during the year.

Auditors

BDO Stoy Hayward LLP resigned as auditors on 12 January 2005, and the directors thereupon appointed KPMG Audit Plc to fill the vacancy arising. A resolution to re-appoint KPMG Audit Plc as auditors will be proposed at the next annual general meeting.

By order of the Board

R S C Phillips
Director
11 Berkeley Street
London W1J 8DS
United Kingdom
31 May 2005

report of the independent auditor to the members of Regal Petroleum plc

We have audited the financial statements on pages 25 to 45.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 23, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with 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 as at 31 December 2004 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
31 May 2005

consolidated profit and loss account

for the year ended 31 December 2004

	Note	2004 $000	2003 $000
Group turnover	2	**42,459**	10,194
Cost of sales		**(48,371)**	(8,973)
Gross (loss)/profit		**(5,912)**	1,221
Administrative expenses	3	**(15,517)**	(8,528)
Other operating income		**3,386**	2,966
Group operating loss	2	**(18,043)**	(4,341)
Loss on sale of fixed assets – continuing operations		**(36)**	–
Interest receivable and similar income		**1,244**	254
Interest payable and similar charges	6	**(325)**	(129)
Loss on ordinary activities before taxation		**(17,160)**	(4,217)
Tax on profit on ordinary activities	7	**(884)**	–
Loss on ordinary activities after taxation		**(18,044)**	(4,217)
Minority interests – equity		**4,363**	1,309
Retained loss for the financial year		**(13,681)**	(2,908)
Loss per ordinary share (cents)			
Basic	8	**(12.4c)**	(4.5c)
Diluted	8	**(12.4c)**	(4.5c)

consolidated balance sheet

at 31 December 2004

	Note	2004 $000	2003 $000 Restated
Fixed assets			
Intangible assets	9	**6,183**	2,350
Tangible assets	10	**97,877**	36,188
		104,060	38,538
Current assets			
Stocks	13	**10,166**	3,626
Debtors (including $2,791 (2003: $2,206) due after more than one year)	14	**14,919**	10,169
Investments	15	**3,342**	3,770
Cash at bank and in hand		**25,643**	28,539
		54,070	46,104
Creditors: amounts falling due within one year	16	**(30,777)**	(15,441)
Net current assets		**23,293**	30,663
Total assets less current liabilities		**127,353**	69,201
Creditors: amounts falling due after more than one year	17	**(682)**	–
Provisions for liabilities and charges	18	**(1,854)**	(1,253)
Net assets		**124,817**	67,948
Capital and reserves			
Called up share capital	19	**9,678**	8,212
Share premium account	20	**134,254**	62,369
Other reserves	20	**5,036**	4,273
Profit and loss account	20	**(24,151)**	(10,854)
Shareholders' funds – equity		**124,817**	64,000
Minority interests – equity	21	**–**	3,948
Total equity		**124,817**	67,948

These financial statements were approved by the Board of Directors on 31 May 2005.

R S C Phillips
Director

company balance sheet
at 31 December 2004

	Note	2004 $000	2003 $000 Restated
Fixed assets			
Intangible assets	9	**129**	–
Tangible assets	10	**10,266**	191
Investments	11	**56,942**	35,801
		67,337	35,992
Current assets			
Debtors (including $43,553 (2003: $nil) due after more than one year)	14	**52,034**	1,146
Investments	15	**3,247**	3,146
Cash at bank and in hand		**16,213**	26,575
		71,494	30,867
Creditors: amounts falling due within one year	16	**(2,608)**	(351)
Net current assets		**68,886**	30,516
Total assets less current liabilities		**136,223**	66,508
Net assets		**136,223**	66,508
Capital and reserves			
Called up share capital	19	**9,678**	8,212
Share premium account	20	**134,254**	62,369
Profit and loss account	20	**(7,709)**	(4,073)
Shareholders' funds		**136,223**	66,508

These financial statements were approved by the Board of Directors on 31 May 2005.

R S C Phillips
Director

consolidated cash flow statement

for the year ended 31 December 2004

	Note	**2004 $000**	2003 $000
Net cash flow from operating activities	23	**(5,901)**	(1,060)
Returns on investments and servicing of finance	24	**917**	150
Taxation		**(771)**	–
Capital expenditure and financial investment	24	**(71,586)**	(16,766)
Acquisitions and disposals	24	**–**	(1,547)
Cash outflow before management of liquid resources and financing		**(77,341)**	(19,223)
Management of liquid resources	24	**(119)**	(3,168)
Financing	24	**74,430**	41,840
(Decrease)/increase in cash in the period		**(3,030)**	19,449

	Note	**2004 $000**	2003 $000
Reconciliation of net cash flow to movement in net funds	25		
(Decrease)/increase in cash in the period		**(3,030)**	19,449
Cash (outflow)/inflow from (decrease)/increase in funds and lease financing		**(1,080)**	789
Cash inflow from decrease in liquid resources		**119**	3,168
Change in net funds resulting from cash flows		**(3,991)**	23,406
Translation differences		**134**	168
Other non–cash movements		**(1,229)**	–
Movement in net funds in the period		**(5,086)**	23,574
Net funds at the start of the period		**32,309**	8,735
Net funds at the end of the period		**27,223**	32,309

consolidated statement of total recognised gains and losses

for the year ended 31 December 2004

	2004 $000	2003 $000
Loss for the financial year	**(13,681)**	(2,908)
Gross exchange differences on the retranslation of net investments	**1,147**	488
Total recognised gains and losses relating to the financial year	**(12,534)**	(2,420)

reconciliations of movements in shareholders' funds

for the year ended 31 December 2004

	Group		Company	
	2004 $000	2003 $000 Restated	**2004 $000**	2003 $000 Restated
Loss for the financial year	**(13,681)**	(2,908)	**(3,636)**	(1,411)
Other recognised gains and losses relating to the year (net)	**1,147**	488	**–**	–
New share capital subscribed (net of issue costs)	**73,351**	51,214	**73,351**	51,214
Purchase of own shares	**–**	(149)	**–**	(149)
Net addition to shareholders' funds	**60,817**	48,645	**69,715**	49,654
Opening shareholders' funds – previously reported	**64,203**	15,409	**66,711**	16,908
Prior year adjustment*	**(203)**	(54)	**(203)**	(54)
Opening shareholders' funds – restated	**64,000**	15,355	**66,508**	16,854
Closing shareholders' funds	**124,817**	64,000	**136,223**	66,508

* restated for the adoption of UITF38 Accounting for ESOP Trusts

notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements except for changes arising from the application of UITF 38 (Accounting for ESOP Trusts). This mainly deals with the balance sheet accounting treatment for the Company's shares and does not have a material impact on Group earnings. Comparative figures have been restated accordingly (see note below).

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The Group's financial statements fall within the scope of the United Kingdom Oil Industry Accounting Committee's Statement of Recommended Practice ('SORP') 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' and have been prepared with the provisions thereof.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2004. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Where a Group company is party to a joint arrangement which is not an entity that company accounts directly for its part of the income and expenditure, assets, liabilities and cash flows. Such arrangements are reported in the consolidated financial statements on the same basis.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Corporate restructuring

During 2002 the Group carried out a corporate restructuring including the introduction of a new holding company. The corporate restructure was accounted for as a merger in accordance with FRS 6 'Acquisitions and Mergers'.

Reserves

Proven and probable oil and gas reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs. The proven reserves included herein conform to the definition approved by the Society of Petroleum Engineers (SPE) and the World Petroleum Congress (WPC). The probable reserves included herein conform to definitions of probable reserves approved by the SPE/WPC using the deterministic methodology.

Oil and gas assets

The Group follows the 'full cost' method of accounting for the costs associated with exploration, appraisal, development and production of oil and gas reserves. The Group's evaluated oil and gas assets are held in separately designated geographical cost pools. The costs of acquisition of property (including rights and concessions), geological and geophysical costs, cost of field production facilities, pipelines and plant and equipment are classified as tangible fixed assets if they relate to proved and probable oil and gas properties.

All costs associated with property acquisition, exploration and development are capitalised regardless of whether they result in commercial discoveries or not. Producing oil and gas assets are depleted by pool on a unit of production method in the proportion of actual production for the period to the total remaining commercial reserves. Reserves are those estimated at the end of the period plus production during the period. For depletion purposes only, the cost base includes costs of capital assets and anticipated future development expenditure. Pre licence acquisition, exploration and appraisal costs of individual licence interests are held outside cost pools until the existence or otherwise of commercial reserves is established. These costs remain undepreciated as intangible exploration and development costs until this determination is made. When a positive determination is made the cost is transferred to a cost pool and depreciated. If the area of interest is determined to be non commercial the cost is written off.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost, less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Fixtures, fittings and equipment	20–25% per annum straight line
Motor vehicles	20–25% per annum straight line
Plant and machinery	8–25% per annum straight line
Exploration, evaluation and development costs	depreciated on a unit of production basis

1 Accounting policies (continued)

Impairment testing

As at the year end, ceiling tests were performed in accordance with FRS 11 'Impairment of Fixed Assets and Goodwill'. The results indicate that there has been no impairment and that the carrying value of fixed assets is appropriate. The assumptions made by the directors in performing the tests were:

IPE Brent oil price:	$33 per barrel
Condensate price:	$276.50 per cubic metre
Gas price:	$58 per thousand cubic metres
Sulphur price:	$32 per metric tonne
Exchange rate:	€/$1.34
Inflation rate:	1–2%
Discount rate:	10%

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities, and profit and loss accounts of overseas subsidiary undertakings are translated at the closing exchange rates. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Post retirement benefits

The Group, other than Kavala Oil S.A., operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Kavala Oil S.A. operates an unfunded defined benefit fund in accordance with the laws of Greece and applies FRS 17 'Retirement Benefits'. The amount charged to the profit and loss account represents the movement in the present value of future obligations in respect to retirement benefits payable in the accounting period.

The directors made the following additional assumptions to determining the value of the defined benefit provision on an actuarial basis:

Discount rate:	4.75%
Annual salary increase:	3.50%

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the result for the year and takes into account the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents amounts invoiced in respect of sales of oil and gas exclusive of indirect taxes and excise duties and is recognised on delivery of product.

1 Accounting policies (continued)

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.

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.

Production sharing agreement
The Group had a production sharing agreement with ChernigivNaftoGazGeologiya, a Ukrainian state–owned drilling company. In accordance with FRS 9 'Associates and Joint Ventures', 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 and actual contributions to the Joint Arrangement.

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 FRS 12 'Provisions, Contingent Liabilities and Contingent Assets'.

Cash and liquid resources
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash) and investments in money market managed funds.

Financial instruments
The Group uses derivative financial instruments to reduce its exposure to fluctuations in movements in oil and gas prices. Premiums paid to enter into such derivative financial instruments are charged to the profit and loss account over the period of the hedge. Payments and receipts arising under the financial instruments are recognised in the profit and loss account in the same periods as the hedged transactions.

The Group does not hold or issue derivative financial instruments for speculative purposes and it is the Group's policy that no trading in financial instruments shall be undertaken.

Leases
Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

New accounting standard UITF Abstract 38 Accounting for ESOP Trusts
This standard requires the assets and liabilities of the Group's ESOP trust to be recognised in the Group's financial statements where there is de-facto control of those assets and liabilities. The Company's own shares held by the ESOP trust should be deducted from shareholder's funds until they vest unconditionally with employees. Prior to the adoption of UITF 38, the Company's own shares held by the ESOP trust were recognised as an asset on the balance sheet at the lower of cost and estimated net realisable value. The new standard is effective for periods ending on or after 22 June 2004. All primary statements and notes to the accounts have been restated accordingly.

Compliance with UITF 38 has reduced the 2003 investments and shareholders funds by $203,000 (2003: $203,000). The net profit for 2004 and 2003 was not materially affected.

2 Segmental information

The table below sets out information for each of the Group's industry segments and geographic areas of operation.

	Greece		Ukraine		United Kingdom		Romania		Egypt		Total	
	2004 $000	2003 $000	2004 $000	2003 $000	2004 $000	2003 $000	2004 $000	2003 $000	2004 $000	2003 $000	2004 $000	2003 $000
Turnover												
Oil sales	**33,420**	7,121	**–**	–	**–**	–	**–**	–	**–**	–	**33,420**	7,121
Gas sales	**–**	–	**2,968**	2,545	**–**	–	**–**	–	**–**	–	**2,968**	2,545
Condensate sales	**–**	–	**4,665**	299	**–**	–	**–**	–	**–**	–	**4,665**	299
Sulphur sales	**1,380**	221	**–**	–	**–**	–	**–**	–	**–**	–	**1,380**	221
Other	**26**	8	**–**	–	**–**	–	**–**	–	**–**	–	**26**	8
Total sales	**34,826**	7,350	**7,633**	2,844	**–**	–	**–**	–	**–**	–	**42,459**	10,194
Sales to third parties	**34,826**	7,350	**7,633**	2,844	**–**	–	**–**	–	**–**	–	**42,459**	10,194
Group operating profit/(loss)	**(13,790)**	(3,076)	**2,753**	158	**(7,151)**	(1,411)	**376**	(12)	**(231)**	–	**(18,043)**	(4,341)
Net assets	**62,950**	13,091	**23,551**	18,540	**31,501**	32,040	**6,159**	329	**660**	–	**124,817**	64,000

There are no inter-segment sales within the Group and all sales are sold in the geographical region they are produced in.

3 Loss on ordinary activities before taxation

	2004 $000	2003 $000
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration:		
Group – audit	**102**	56
– fees paid to the auditors and its associates in respect of other services	**121**	7
Company – audit	**90**	40
Depreciation and other amounts written off tangible fixed assets – owned	**7,696**	2,241
Amortisation of goodwill	**–**	18
Hedging losses	**11,001**	–
Hire of plant and machinery – rentals payable under operating lease	**3,576**	101
Loss on ordinary activities before taxation is stated after crediting		
Foreign exchange differences	**6,373**	1,807

4 Remuneration of directors

	2004 $000	2003 $000 Restated
Directors' emoluments	**1,384**	924
	1,384	924

No current directors accrued any retirement benefits during the year.

4 Remuneration of directors (continued)

The emoluments of the individual directors were as follows:

	Basic salary and fees 2004 $000	Benefits in kind 2004 $000	Total 2004 $000	Total 2003 $000 Restated
W H Humphries	**27**	**–**	**27**	27
Lord St John of Bletso	**27**	**–**	**27**	7
V F Timis	**658**	**1**	**659**	249
R S C Phillips	**86**	**1**	**87**	–
N Loutsigkas	**14**	**–**	**14**	4
G Nolte	**419**	**22**	**441**	374
G R Featherby	**111**	**18**	**129**	223
F D Wheatley	**–**	**–**	**–**	20
G J Lee	**–**	**–**	**–**	20
	1,342	**42**	**1,384**	924

Included in the above emoluments are goods and services to the value of $229,150 (2003: $183,320) that were paid for by the Group on behalf of Mr V F Timis in the form of a loan. This loan has been repaid by Mr Timis by way of a bonus awarded in December 2004. The maximum amount of the loan during the year was $229,150 (2003: $183,320). The amount of $nil (2003: $nil) was owing to the Group at the end of the year.

For the year ended 31 December 2003 Director's emoluments has been restated to include the bonus that was awarded to Mr V F Timis for the 2003 year.

	Number of directors 2004	2003
The number of directors who exercised share options was	**1**	–

5 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees 2004	2003 Restated
Part time	**–**	1
Full time	**335**	109
	335	110

The 2003 employee numbers and aggregate payroll costs have been restated to correctly reflect the acquisition of our interest in Kavala Oil S.A. in October 2003.

The aggregate payroll costs of these persons were as follows:

	2004 $000	2003 $000
Wages and salaries	**18,708**	4,630
Social security costs	**3,038**	96
Other pension costs	**587**	24
	22,333	4,750

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to $52,572 (2003: $17,383).

Under Greek law, the Group has an obligation to pay 40% of a Greek employee's salary on retirement, pro-rated depending upon the years of service. There are no contributions made to a specific retirement fund. The Group provides for the present value of future obligations in respect of retirement benefits payable in accordance with the requirements of FRS 17 'Retirement benefits'. The amount provided for during the year was $530,684 (2003: $6,306). The amount paid out in relation to employees who retired during the year was $31,509 (2003: $25,729).

6 Interest payable and similar charges – Group

	2004 $000	2003 $000
On bank loans and overdrafts	**325**	129
	325	129

7 Taxation

Analysis of charge in period

	2004 $000	2003 $000
Foreign tax		
Current tax on income for the period	**884**	–
Tax on profit on ordinary activities	**884**	–

Factors affecting the tax charge for the current period

The current tax charge for the period is higher than the standard rate of corporation tax in the UK 30% (2003: 30%). The differences are explained below.

	2004 $000	2003 $000
Current tax reconciliation		
Loss on ordinary activities before tax	**(17,160)**	(4,217)
Current tax (credit) at 30% (2003: 30%)	**(5,148)**	(1,265)
Effects of:		
Disallowed expenses and non taxable income	**(1,154)**	48
Foreign tax calculation differences	**(1,868)**	
Capital allowances for period in excess of depreciation	**(17,469)**	(1,843)
Difference in inventory valuation	**(715)**	–
Other timing differences	**(450)**	–
Tax losses carried forward	**27,688**	3,060
Total current tax charge (see above)	**884**	–

Factors affecting future tax charge

The directors do not believe that it is appropriate to provide for a deferred tax asset for the potential benefit arising from corporate tax timing differences at 31 December 2004. At 31 December 2004 there were unprovided deferred tax assets in respect of tax losses carried forward of $30,772,500 (relating primarily to Greece) offset by deferred tax liabilities in respect of the excess of capital allowances over depreciation of $20,211,062 (relating primarily to Greece).

8 Earnings per share

Basic and diluted loss per share has been calculated on the basis of losses after taxation of $13,681,139 (2003: $2,908,780) by the weighted average number of shares in issue throughout the year of 109,954,727 (2003: 64,654,847) 5 pence ordinary shares. The calculation of the weighted average number of shares includes a deduction of 2,250,000 shares as these represent an investment in our own shares (the weighting of these shares for the year was 2,250,000).

9 Intangible fixed assets

Group	Goodwill $000	Exploration and development costs $000	Total $000
Cost			
At beginning of year	2,368	–	2,368
Additions	–	6,132	6,132
Effect of movement in foreign exchange	–	51	51
Transfers to tangible fixed assets (note 10)	(2,368)	–	(2,368)
At end of year	–	6,183	6,183
Amortisation			
At beginning of year	18	–	18
Transfers to tangible fixed assets (note 10)	(18)	–	(18)
At end of year	–	–	–
Net book value			
At 31 December 2004	**–**	**6,183**	**6,183**
At 31 December 2003	2,350	–	2,350

Following the finalisation of the allocation of fair values relating to the 2003 acquisition of Kavala Oil S.A., goodwill previously recognised was transferred to 'Tangible fixed assets – Exploration and development costs' (refer note 10).

Company	Exploration and development costs $000
Cost	
At beginning of year	–
Additions	129
At end of year	129
Amortisation	
At beginning of year	–
At end of year	–
Net book value	
At 31 December 2004	**129**
At 31 December 2003	–

10 Tangible fixed assets

Group	Fixtures, fittings and equipment $000	Motor vehicles $000	Exploration and development costs $000	Plant and machinery $000	Buildings and improvements $000	Total $000
Cost						
At beginning of year	1,030	346	58,080	1,565	126	61,147
Additions	1,103	41	46,990	14,238	3,093	65,465
Disposals	(40)	(146)	–	(22)	–	(208)
Effect of movement in foreign exchange	52	15	3,484	121	10	3,682
Transfers from intangible fixed assets (note 9)	–	–	2,368	–	–	2,368
Acquisition – transfer from depreciation	–	–	1,885	–	–	1,885
At end of year	2,145	256	112,807	15,902	3,229	134,339
Depreciation						
At beginning of year	465	168	23,855	445	26	24,959
Charge for year	335	75	6,412	855	19	7,696
On disposals	(26)	(136)	–	(20)	–	(182)
Effect of movement in foreign exchange	29	10	2,013	33	1	2,086
Transfers from intangible fixed assets (note 9)	–	–	18	–	–	18
Acquisition – transfer to cost	–	–	1,885	–	–	1,885
At end of year	803	117	34,183	1,313	46	36,462
Net book value						
At 31 December 2004	**1,342**	**139**	**78,624**	**14,589**	**3,183**	**97,877**
At 31 December 2003	565	178	34,225	1,120	100	36,188

Company	Fixtures, fittings and equipment $000	Plant and machinery $000	Total $000
Cost			
At beginning of year	230	–	230
Additions	769	9,858	10,627
Disposals	(4)	–	(4)
At end of year	995	9,858	10,853
Depreciation			
At beginning of year	39	–	39
Charge for year	109	440	549
On disposals	(1)	–	(1)
At end of year	147	440	587
Net book value			
At 31 December 2004	**848**	**9,418**	**10,266**
At 31 December 2003	191	–	191

11 Fixed asset investments

Company	Investment in group undertakings $000	Loans to group undertakings $000	Total $000
Cost			
At beginning of year	12,569	23,232	35,801
Additions	201	20,940	21,141
At end of year	**12,770**	**44,172**	**56,942**

11 Fixed asset investments (continued)

The undertakings in which the Group's interest at the year end is more than 20% of the ordinary share capital are as follows:

Subsidiary undertakings	Country of incorporation	Principal activity	Class and percentage of shares held
Regal Petroleum (Jersey) Limited	Jersey	Holding company	100%
Regal Petroleum Corporation Limited	Jersey	Oil and natural gas extraction	100%
Regal Petroleum Ukraine Limited	Ukraine	Oil and natural gas extraction	100%
Regal Petroleum International Inc.	Virgin Islands	Dormant	100%
Eurotech Services S.A.	Greece	Holding company	86.1%
Kavala Oil S.A.	Greece	Oil and natural gas extraction	57.7%
Regal Romania SRL	Romania	Oil and natural gas extraction	100%
Regal Hellas S.A.	Greece	Dormant	100%
Regal Energy Limited	United Kingdom	Electricity production	50%
Regal Egypt Limited	United Kingdom	Oil and natural gas extraction	100%
Regal Group Services Limited	United Kingdom	Dormant	100%

The parent company holds direct interests in the above except for the indirect interest of 57.7% of the share capital of Kavala Oil S.A. which is controlled though its 86.1% ownership of Eurotech Services S.A which in turn owns 67% of the issued capital of Kavala Oil S.A.

12 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 $3,636,692 for the year ended 31 December 2004, which is dealt with in the financial statements of the parent company.

13 Stocks

	Group 2004 $000	Group 2003 $000
Finished goods and goods for resale	**5,767**	1,370
Spare parts	**4,399**	2,256
	10,166	3,626

In the opinion of the directors, there is no material difference between the cost of stock included in the accounts and its replacement cost.

14 Debtors

	Group		Company	
	2004 $000	2003 $000	2004 $000	2003 $000
Trade debtors	**10,960**	4,609	**451**	84
Amounts owed by group undertakings	**–**	–	**50,964**	551
Prepayments and accrued income	**1,639**	873	**99**	309
Other debtors	**2,320**	4,687	**520**	202
	14,919	10,169	**52,034**	1,146

Total Group trade debtors include amounts recoverable after more than one year of $2,790,810 (2003: $2,206,000).

15 Investments (held as current assets)

	Group		Company	
	2004 $000	2003 $000	2004 $000	2003 $000
Short–term investment	**3,000**	3,000	**3,000**	3,000
Other investments	**342**	770	**247**	146
	3,342	3,770	**3,247**	3,146

16 Creditors: amounts falling due within one year

	Group		Company	
	2004 $000	2003 $000	**2004 $000**	2003 $000
Bank loans and overdrafts	**1,080**	–	**–**	–
Trade creditors	**26,887**	12,039	**2,052**	197
Taxation and social security	**1,318**	1,545	**262**	112
Other creditors	**–**	583	**–**	3
Accruals and deferred income	**1,492**	1,274	**294**	39
	30,777	15,441	**2,608**	351

17 Creditors: amounts falling due after more than one year

	Group	
	2004 $000	2003 $000
Preference shares issued during the year	**682**	–
	682	–

The preference shares were issued by Kavala Oil S.A. and have a cumulative right to dividends of one month Euro LIBOR plus 3%. They are not redeemable and rank equally with ordinary shareholders upon liquidation of the company.

18 Provisions for liabilities and charges

Group	Provision for decommissioning $000	Provision for retirement benefits $000	Total $000
At beginning of year (1 January 2004)	495	758	1,253
Effect of movement in foreign exchange	11	60	71
Additional amounts provided	–	530	530
At end of year (31 December 2004)	**506**	**1,348**	**1,854**

At 31 December 2004 a provision for $506,419 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 2009 and 2024. The provision has been estimated based on current prices.

In the year ended 31 December 2004 a provision of $1,347,822 has been recognised for retirement benefits which represent the present value of future obligations in respect to retirement benefits payable.

19 Called up share capital

	2004 $000	2003 $000
Authorised		
Equity: 200,000,000 ordinary shares of 5 pence each (approximately 8 cents each)	**17,905**	17,905
Allotted, called up and fully paid		
Equity: 116,374,868 ordinary shares of 5 pence each (approximately 8 cents each)	**9,678**	8,212

The directors held the following options to subscribe for shares in the Company:

	Class of share	At end of year	At beginning of year or date of appointment
V F Timis	Ordinary	1,200,000	1,200,000
R S C Phillips	Ordinary	250,000	–
W H Humphries	Ordinary	500,000	850,000
Lord St John of Bletso	Ordinary	500,000	500,000

The above options are held under executive share option schemes and exercisable by 2014 at prices ranging between 60 pence and 325 pence.

19 Called up share capital (continued)

Share Option Scheme

At 31 December 2004 the following share options were outstanding in respect of ordinary shares:

Year of grant	Number of shares	Exercise period Start date	End date	Price per share
2002	250,000	19 Mar 04	19 Sep 12	60p
2003	450,000	20 Nov 03	19 Oct 13	75p
2003	500,000	12 Dec 03	11 Nov 13	83.5p
2003	1,300,000	12 Dec 03	11 Dec 13	85.5p
2004	225,000	6 Apr 04	5 Apr 14	349p
2004	200,000	1 Sep 04	31 Aug 14	360p
2004	2,882,500	1 Nov 04	31 Dec 14	325p

20 Share premium and reserves

Group	Share capital $000	Share premium account $000	Merger reserve $000	Capital contributions $000	Foreign exchange reserve $000	Profit and loss account $000	Total $000
At beginning of year (1 January 2004)	8,212	62,369	(3,204)	7,477	–	(10,651)	64,203
Prior year adjustment	–	–	–	–	–	(203)	(203)
Retained profit for the year	–	–	–	–	–	(13,681)	(13,681)
Issued shares*	1,466	–	–	–	–	–	1,466
Premium on share issues, less expenses*	–	71,885	–	–	–	–	71,885
Exchange differences	–	–	–	–	763	384	1,147
At end of year (31 December 2004)	**9,678**	**134,254**	**(3,204)**	**7,477**	**763**	**(24,151)**	**124,817**

Company	Share capital $000	Share premium account $000	Merger reserve $000	Capital contributions $000	Foreign exchange reserve $000	Profit and loss account $000	Total $000
At beginning of year (1 January 2004)	8,212	62,369	–	–	–	(3,870)	66,711
Prior year adjustment	–	–	–	–	–	(203)	(203)
Retained profit for the year	–	–	–	–	–	(3,636)	(3,636)
Issued shares*	1,466	–	–	–	–	–	1,466
Premium on share issues, less expenses*	–	71,885	–	–	–	–	71,885
At end of year (31 December 2004)	**9,678**	**134,254**	**–**	**–**	**–**	**(7,709)**	**136,223**

* In March 2004, the Company raised $69.8 million net of expenses through an institutional placing of 13,333,334 shares for consideration of 300 pence per share. The remainder of the increase in share capital related to the exercise of options for consideration ranging between 60 pence and 104.5 pence per share.

The application of UITF 38 (Accounting for ESOP trusts) has required the investment in the Company's own shares to be reclassified in the balance sheet as a deduction from shareholders' funds.

A number of Regal Petroleum plc ordinary shares are held in Employee Share Ownership Trusts (ESOTs). These shares are held by the ESOTs to meet awards made under a number of employee share plans. At December 2004 the ESOT held a total of 2,250,000 Regal Petroleum plc ordinary shares (2003: 2,250,000). At 31 December 2004 the market value of these shares were $15,063,302 (2003: $4,590,000).

21 Minority interests

Group	2004 $000	2003 $000
At beginning of year	**3,948**	–
Share of loss for year	**(4,363)**	(1,309)
Acquisition of subsidiary undertakings	**–**	4,914
Effect of movements in foreign exchange	**415**	343
At end of year	**–**	3,948

22 Commitments

Annual commitments under non–cancellable operating leases are as follows:

Group	2004 Land and buildings $000	2004 Other $000	2004 Total $000	2003 Land and buildings $000
Operating leases which expire:				
Within one year	**360**	**4,463**	**4,823**	–
In the second to fifth years inclusive	**480**	**3,232**	**3,712**	108
	840	**7,695**	**8,535**	108

As at 31 December 2004, the Group's Romanian subsidiary had a contractual commitment to complete one well and start drilling one other, the Company estimates that each well costs approximately $2 million to complete.

Company	2004 Land and buildings $000	2003 Land and buildings $000
Operating leases which expire:		
Within one year	**360**	–
In the second to fifth years inclusive	**480**	108
	840	108

23 Reconciliation of operating loss to operating cash flows

	2004 $000	2003 $000
Operating loss	**(18,043)**	(4,341)
Depreciation, amortisation and impairment charges	**7,696**	2,259
Exchange differences	**(349)**	(1,007)
Movement in provisions	**601**	86
(Increase)/decrease in stocks	**(6,541)**	1,735
(Increase) in debtors	**(4,750)**	(4,888)
Increase in creditors	**14,256**	3,841
Shares issued in lieu of cash	**–**	1,255
Loss on gift of shares to minority interest	**682**	–
Current asset investment – expiration of oil hedge put options	**547**	–
Net cash outflow from operating activities	**(5,901)**	(1,060)

The operating loss cash flow, above, includes $10,082,080 of outflows in relation to the hedge contract taken out during the year ended 31 December 2004.

24 Analysis of cash flows

	2004 $000	2003 $000
Returns on investment and servicing of finance		
Interest received	**1,241**	280
Interest paid	**(324)**	(130)
	917	150
Capital expenditure and financial investment		
Purchase of tangible and intangible fixed assets	**(71,586)**	(16,766)
Short term loans	**–**	–
	(71,586)	(16,766)
Acquisitions and disposals		
Purchase of subsidiary undertaking	**–**	(1,547)
	–	(1,547)
Management of liquid resources		
Purchase of current non–listed investments	**–**	(3,168)
Increase in monies on deposit	**(119)**	–
	(119)	(3,168)
Financing		
Issue of ordinary share capital	**73,350**	42,025
Debt due within one year:		
Increase in short–term borrowing	**1,080**	–
Repayment of secured loan	**–**	(185)
	74,430	41,840

25 Analysis of net funds

	At beginning of year $000	Cash flow $000	Other non cash movements $000	Exchange movement $000	At end of year $000
Cash in hand and at bank	28,539	(3,030)	–	134	25,643
Overdrafts	–	(1,080)	–	–	(1,080)
Current asset investments	3,770	119	(547)	–	3,342
Debt due after one year	–	–	(682)	–	(682)
Total	**32,309**	**(3,991)**	**(1,229)**	**134**	**27,223**

26 Financial instruments

The Group's financial instruments comprise loans, short term investments, cash and various items such as debtors and creditors that arise directly from its operations. The Group has bank accounts denominated in British Pounds, Egyptian Pounds, US Dollars, Euros, Ukraine Hryvnia and Romanian Leu. As at 31 December 2004 the Group does not have any long term borrowings. The main future risks arising from the Group's financial instruments are currently currency risk and liquidity risk.

Short–term debtors and creditors

Short–term debtors and creditors have been excluded from all the following disclosures other than the currency risk disclosures. The fair value of short–term debtors and creditors approximates to the carrying value because of their short maturity. In accordance with FRS 13 'Derivatives and Other Financial Instruments', deferred tax has been excluded from the following disclosures.

26 Financial instruments (continued)

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 of the monetary assets and liabilities of the Group that are not denominated in the functional currency of operations.

Currency	2004 $000	2003 $000
British Pounds	**1,638**	25,879
Egyptian Pounds	**(13)**	–
Euros	**(8,645)**	(4,379)
Ukraine Hryvnia	**3,318**	2,243
Romanian Leu	**285**	4
Total	**(3,417)**	23,747

Liquidity risk

The Group's objective throughout the year has been to ensure continuity of funding. Operations to date have primarily been financed through capital contributions and the issue of share capital.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31 December 2004 was:

	2004			2003		
Currency	Floating rate financial liabilities $000	Fixed rate financial liabilities $000	Total financial liabilities $000	Floating rate financial liabilities $000	Fixed rate financial liabilities $000	Total financial liabilities $000
Euros	**1,082**	**680**	**1,762**	–	–	–
Total	**1,082**	**680**	**1,762**	–	–	–

All the Group's creditors falling due within one year (other than bank borrowings) are excluded from the above tables either due to the exclusion of short–term items or because they do not meet the definition of financial liabilities. There are no material financial liabilities on which interest is not paid.

The floating rate financial liabilities comprise bank borrowings bearing interest rates fixed in advance for various periods up to 12 months by reference to LIBOR for that time period.

	2004 Fixed rate financial liabilities		2003 Fixed rate financial liabilities	
Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Euros	**7.35**	**1**	–	–
Weighted average	**7.35**	**1**	–	–

26 Financial instruments (continued)

Interest rate risk profile of financial assets

The Group had the following financial assets as at 31 December 2004:

Currency	2004 Floating rate financial assets $000	2004 Fixed rate financial assets $000	2004 Total $000	2003 Floating rate financial assets $000	2003 Fixed rate financial assets $000	2003 Total $000
British Pounds	**1,635**	**–**	**1,635**	25,990	–	25,990
US Dollar	**15,372**	**3,000**	**18,372**	484	3,000	3,484
Egyptian Pounds	**(13)**	**–**	**(13)**	–	–	–
Euros	**5,312**	**–**	**5,312**	2,684	–	2,684
Ukraine Hryvnia	**3,273**	**–**	**3,273**	1	–	1
Romanian Leu	**64**	**–**	**64**	4	–	4
Total	**25,643**	**3,000**	**28,643**	29,163	3,000	32,163

The cash deposits comprise deposits placed in money market funds.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short–term creditors and accruals, was as follows:

	2004 $000	2003 $000
In one year or less	**1,080**	–
In more than five years	**682**	–
Total	**1,762**	–

Borrowing facilities

The Group has certain borrowing facilities available to it. The undrawn facilities available at 31 December 2004 in respect of which all conditions precedent have been met at that date amount to $6,123,281.

Facility	2004 Drawn $000	2004 Undrawn $000	2004 Total $000	2003 Drawn $000	2003 Undrawn $000	2003 Total $000
Overdraft facility	**1,080**	**5,043**	**6,123**	–	–	–
Total	**1,080**	**5,043**	**6,123**	–	–	–

Bank borrowing facilities are normally reaffirmed by the banks annually although they can theoretically be withdrawn at any time.

Hedges

The Group's policy is to hedge 50% of the anticipated oil production at suitable production levels. The Group hedged production of approximately 2,600 bopd for the period 1 January 2004 to 31 December 2004. There are no open hedge contracts at year end because the Group had not achieved the production levels deemed suitable.

Fair value of financial assets and liabilities

The fair value of all financial instruments is not materially different from the book value.

27 Post balance sheet events

On 27 January 2005, the Company increased its interest in Eurotech Services S.A. to 100% by purchasing the remaining 13.89% minority shareholding for a total consideration of €892,000.

On 26 April 2005 the Company issued 11,500,000 new ordinary shares at a price of £3.90 per share as part of an institutional placement. The net proceeds of the placing totalled £42.6 million. These proceeds will be used to pursue the Company's exploration, appraisal and development strategies in Romania, Greece and Egypt.

28 Related party disclosures

During the year ended 31 December 2004, goods and services to the value of $312,723 (2003: $58,054) were paid for by the Group on behalf of European Goldfields Limited in the form of a debtor. European Goldfields Limited is a mining company based in the UK and Canada, in which Mr V F Timis is a substantial shareholder. The amount of $22,664 (2003: $58,054) was owed to the Group at the end of the year. All amounts owing at the year end were fully repaid during 2005.

Goods and services to the value of $18,092 (2003: $nil) were paid for by the Group on behalf of Sierra Leone Diamond Company Limited in the form of a debtor. Sierra Leone Diamond Company Limited is a diamond exploration company listed on the Alternative Investment Market in London, in which Mr V F Timis is the current Chairman. The amount of $18,092 (2003: $nil) was owed to the Group at the end of the year. All amounts owing at the year end were fully repaid during 2005.

During the year, goods and services to the value of $386,502 (2003: $nil) were paid for by the Group on behalf of European Hydrocarbons Limited in the form of a debtor. European Hydrocarbons Limited is a mining company based in Greece, in which Mr V F Timis has a majority shareholding and with which the Company has a joint venture agreement to develop certain exploration licences in Liberia. The amount of $386,502 (2003: $nil) was owed to the Group at the end of the year. All amounts owing at the year end were fully repaid during 2005.

reserves statement

for the year ended 31 December 2004

The reserves statement below has not been audited by KPMG Audit Plc.

The table below details the Group's oil, condensate and gas reserves estimated at 31 December 2004, which have been audited by independent reserve auditors Troy Ikoda Ltd (September 2002) for the reserves in the Ukraine and Troy Ikoda Ltd (June 2003) for the reserves in Greece.

Group proved plus probable gas reserves	Proved MMcf	Probable MMcf	Total MMcf
At 1 January 2004	419,334	464,548	883,882
Production	(1,862)	–	(1,862)
At 31 December 2004	**417,472**	**464,548**	**882,020**

Group proved plus probable condensate reserves	Proved Mbbls	Probable Mbbls	Total Mbbls
At 1 January 2004	15,621	21,067	36,688
Production	(167)	–	(167)
At 31 December 2004	**15,454**	**21,067**	**36,521**

Group proved plus probable crude oil reserves	Proved Mbbls	Probable Mbbls	Total Mbbls
At 1 January 2004	49,383	30,000	79,383
Revision of previous estimates	(39,070)	(17,430)	(56,500)
Production	(1,008)	–	(1,008)
At 31 December 2004	**9,305**	**12,570**	**21,875**

Group proved plus probable crude oil, gas and condensate reserves	Proved Mboe	Probable Mboe	Total Mboe
At 31 December 2004	**99,100**	**116,360**	**215,460**
At 31 December 2003	139,677	133,791	273,468

Reserves by region	Proved Mboe	Probable Mboe	Total Mboe
Ukraine	89,795	103,790	193,585
Greece	9,305	12,570	21,875
At 31 December 2004	**99,100**	**116,360**	**215,460**

Production by region	**2004 Total Mboe**	2003 Total Mboe
Ukraine	**499**	362
Greece	**1,008**	215
Total Production	**1,507**	577

Proven and probable oil, gas and condensate reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs. The proved and probable reserves included herein conform to the definition approved by the Society of Petroleum Engineers (SPE) and the World Petroleum Congress (WPC).

Estimates of oil, gas and condensate reserves are inherently imprecise, require the application of judgement and are subject to future revision. Accordingly, financial and accounting measures (such as discounted cash flows, depreciation, depletion and amortisation charges and the assessment of impairments) that are based on reserve estimates are also subject to change.

Of total net commercial oil reserves at 31 December 2004, 9,253 Mbbls of oil were attributable to minority shareholders.

notes

notes

corporate directory

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R W Gaisford
R F P Hardman
Lord St John of Bletso
Sir P Heap

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

glossary

boepd
barrels of oil equivalent per day

bopd
barrels of oil per day

km
kilometres

km^2
square kilometres

LIBOR
London Interbank Offered Rate

m
metres

Mbbls
thousand barrels

Mboe
thousand barrels of oil equivalent

mm
millimetres

MMbbls
million barrels

MMcf
million cubic feet

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