
Press Release

30 June 2017

Regal Petroleum plc ("Regal" or the "Company")

Gas Sales to Related Party

Regal Petroleum plc (AIM: RPT), the AIM-quoted oil and gas exploration and production group, announces that it has agreed to sell all of its gas production to LLC Smart Energy ("Smart Energy").

The Company operates the Mekhediviska-Golotvshinska (MEX-GOL), Svyrydivske (SV) and Vasyschevskoye (VAS) fields in Ukraine, producing gas, condensate and LPG.

Smart Energy has oil and gas operations in Ukraine and is part of the PJSC Smart-Holding Group, which is ultimately controlled by Mr Vadim Novinskiy, who also controls an indirect 54% majority shareholding in Regal. As such, Smart Energy is considered to be a related party of Regal pursuant to the AIM Rules for Companies ("AIM Rules").

The Ukrainian Government has introduced a number of new provisions into the Ukrainian Tax Code over the last two years, including transfer pricing regulations for companies operating in Ukraine. The introduction of the new regulations has meant that there is an increased regulatory burden on affected companies in Ukraine who must prepare and submit reporting information to the Ukrainian Tax Authorities.

Due to the corporate structure of the Regal Group, a substantial proportion of Regal's gas production is produced by a non-Ukrainian subsidiary of the Company, which under the new tax regulations, places additional reporting burdens on each of Regal's potential customers who may be less inclined to purchase Regal's gas and/or may seek discounts on sales prices.

As a result of discussions between Regal and Smart Energy, Smart Energy has agreed to purchase all of Regal's gas production and to assume responsibility for the regulatory obligations under the Ukrainian tax regulations.

Furthermore, Smart Energy has agreed to combine Regal's gas production with its own gas production, and to sell such gas as combined volumes, which should result in higher sales prices due to the larger sales volumes. In order to cover Smart Energy's sales, administration and regulatory compliance costs, Regal has agreed to sell its gas to Smart Energy at a discount of 0.5% to the gas sales prices achieved by Smart Energy.

The terms of sale for Regal's gas to Smart Energy are (i) payment for one third of gas delivered by the 20th of the month of delivery, and (ii) payment of the remaining balance by the 10th of the month following the month of delivery.

Given that Smart Energy is a related party to the Company pursuant to the AIM Rules, the sale of the Company's gas, on the terms set out above, is deemed a related party transaction pursuant to the AIM Rules. Accordingly, the independent directors of the Company, being Keith Henry, Alastair Graham and Adrian Coates, having consulted with the Company's Nominated Adviser, Strand Hanson Limited, consider that the sale of the Company's gas on the terms set out above is fair and reasonable insofar as shareholders are concerned.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.



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