REGISTRAR OF COMPANIES

Regal Petroleum plc

Report and Financial Statements

Year Ended

31 December 2003

BDO Stoy Hayward
Chartered Accountants

Regal Petroleum plc

Annual report and financial statements for the year ended 31 December 2003

Contents

Directors

V F Timis
W H Humphries
G R Featherby
G Nolte
Lord Anthony St John
N Loutsigkas

Secretary and registered office

S P West, 4th Floor, 11 Berkeley Street, London, W1J 8DS.

Company number

4462555

Auditors

BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL.

Nominated adviser and broker

Evolution Beeson Gregory Limited, 100 Wood Street, London EC2V 7AN.

Regal Petroleum plc

Chairman's Statement for the year ended 31 December 2003

Dear Shareholder

The past year has been critical in building a substantial platform for the growth of Regal by focusing on production and exploration of quality oil and gas assets. Through the development of our existing asset base, as well as seeking other quality opportunities, Regal is poised for delivering considerable shareholder value during the course of the next few years.

Kavala Acquisition

In October 2003 the Company completed the acquisition of an indirect 57.69 per cent. interest in Kavala Oil S.A. ("Kavala") through the issuance of 4,788,200 shares at 75p per share. Kavala is a Greek oil and gas production company with proven and probable recoverable reserves of 80MMbbls in the Prinos, Prinos North and Epsilon fields and expected recoverable reserves of up to 240MMbbls in the Kallirachi oil discovery. The potential of Kavala, with its proximity to excellent local and international markets, will be realised during the course of the next few years as production from existing producing assets is increased. In addition, the discovery of the exciting Kallirachi prospect since the year end, Regal's first pure exploration project, has provided considerable upside to the potential of Regal becoming a leading hydrocarbon producer in the region.

Romania Licence Areas

In January 2003 Regal was awarded an exclusive exploration, development and production license for a 4,103km^2 area, the Suceava Block in the North East of Romania, by the National Agency for Mineral Resources of Romania ("NAMR"). In December 2003 Regal was awarded a further exclusive exploration, development and production license by NAMR for a 6,285km^2 area, the Barlad Block, which is an eastward extension of the Suceava Block.

Regal now has the largest and most prospective oil and gas concession of any foreign company in Romania, with a total license area in excess of 10,000km^2 of the geological oil and gas structures. Five large gas structures have been identified and it is Regal's intention to commence exploration drilling in the second half of 2004.

Ukraine Operations

A total of six wells have been drilled or worked-over in the Golotovschinska, Mekhediviska and Svyrydivske license areas in Ukraine. Three of these wells are currently producing at approximately 260,000m^3 of gas or equivalent per day. Mex 102 has been downhole tested at 645,000m^3 equivalent per day. The well is connected up to the processing plant and, after cleaning up, it will go into production through the plant.

During 2003 the construction of a gas plant was commenced and completed with the plant being fully operational by July 2003 with a capacity to process 1 million m^3 of gas per day. In December 2003 a 13.2km high capacity export pipeline connecting Regal's gas plant to the international export trunk line to Western Europe was completed and connected on time and within budget. Completion of the plant and pipeline is a major achievement for Regal as it ensures control of the infrastructure as well as providing significant cost savings for the anticipated increase in gas production.

The required documentation for the Production Licence application was submitted in December 2003 and it is expected that the Production Licence will be granted during 2004.

Placement of Shares

On 20 October 2003 Regal raised £24.15 million (net of expenses) through an institutional placing of 35,086,667 new ordinary shares at a price of 75 pence per share.

This fund raising was completed in conjunction with the acquisition of our interest in Kavala and has provided the working capital required for the further development of our existing oil and gas assets and the drilling of a successful exploration well at the Kallirachi oil discovery in Kavala, which was completed in February 2004, with very positive results. Further delineation of the Kallirachi oil discovery has continued as well as the anticipated infill drilling in Prinos and Prinos North, and the drilling of the Epsilon field is due to commence later this year.

Board Appointments

Guenter Nolte, previously Managing Director of Halliburton Europe, was appointed Chief Executive Officer of Regal in March 2003 and has been critical in implementing Regal's strategy. Lord Anthony St John of Bletso, 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, and Nikolaos Loutsigkas, the President and Managing Director of Kavala Oil S.A., have joined as non-executive directors in September 2003 and November 2003 respectively.

Strategy and Outlook for 2004

Our strategy of exploiting existing assets to drive cash flow as well as identifying assets with considerable potential will allow Regal to deliver another year of profitable growth in 2004.

To further develop our assets in Greece and Romania during 2004 and 2005 a placement of 13,333,334 new ordinary shares in March 2004 raised an additional £37.5 million (net of expenses).

2003 has been a year of considerable growth for Regal, with the broadening of our asset base to include both assets producing strong cash flow as well as exploration licenses which will further consolidate the Company's growth plans for many years to come. The success of the Company would not have been possible without the considerable hard work of its employees and I would like to take this opportunity to thank all the staff and my fellow members of the Board for their effort and commitment during the year.

I would also like to thank our shareholders for your continued support in what has become a significant oil and gas exploration and production company over the past year.

V. Frank Timis
Executive Chairman

6 April 2004

Regal Petroleum plc

Proved and Probable Reserves Summary for the year ended 31 December 2003

Group proved plus probable gas reserves	**Proved MMm^3**	**Probable MMm^3**	**Total MMm^3**
At 1 January 2003	11,934	13,160	25,094
Production	(55)	-	(55)
At 31 December 2003	**11,879**	**13,160**	**25,039**

Group proved plus probable condensate reserves	**Proved Mbbls**	**Probable Mbbls**	**Total Mbbls**
At 1 January 2003	15,638	21,067	36,705
Production	(17)	-	(17)
At 31 December 2003	**15,621**	**21,067**	**36,688**

Group proved plus probable oil reserves	**Proved Mbbls**	**Probable Mbbls**	**Total Mbbls**
At 1 January 2003	-	-	-
Acquired with subsidiary undertaking	10,528	12,570	23,098
Revision of previous estimates	39,070	17,430	56,500
Production	(215)	-	(215)
At 31 December 2003	**49,383**	**30,000**	**79,383**

Group proved plus probable oil, gas and condensate reserves	**Proved Mboe**	**Probable Mboe**	**Total Mboe**
At 31 December 2003	**139,677**	**133,791**	**273,468**
At 31 December 2002	**90,656**	**103,791**	**194,447**

Reserves by region are as follows:	**Proved Mboe**	**Probable Mboe**	**Total Mboe**
Ukraine	90,294	103,791	194,085
Greece	49,383	30,000	79,383
At 31 December 2003	**139,677**	**133,791**	**273,468**

Regal Petroleum plc

Proved and Probable Reserves Summary for the year ended 31 December 2003 ***(Continued)***

Production by region during the year was as follows:	**Total Mboe**
Ukraine	362
Greece	215
	577

Regal Petroleum plc

Financial Review for the year ended 31 December 2003

Results Summary

The financial results for the year ended 31 December 2003 reflect the Group's increased production in Ukraine, the acquisition of its interest in Kavala Oil S.A in Greece and the successful fund raising through an institutional placing in October 2003.

Institutional Placing and Greek Acquisition

On 26 October 2003, Regal successfully raised £24.15 million net of expenses through an institutional placing of 35,086,667 shares at 75 pence. Part of these funds were applied against construction of infrastructure in the gas field in Ukraine and drilling of an exploration well in the Kallirachi oil prospect.

Following the institutional placement, the Company had a total of 100,541,534 shares in issue at 31 December 2003.

The Greek acquisition comprised the purchase of 86.11 per cent. of Eurotech Services S.A., a private company incorporated in Greece. Eurotech owns 67 per cent. of the entire issued capital of Kavala which is a private Greek company holding exclusive rights to develop, exploit and operate oil fields in the North Aegean Sea. Regal indirectly owns 57.69 per cent. of the entire issue capital of Kavala.

Turnover

Turnover for the year was $10,194,000 generated from the sale of gas and condensate production from wells MEX3, GOL2 and GOL1 in Ukraine and the sale of oil, electricity and sulphur production from Kavala in Greece.

The Ukraine production wells GOL2 and GOL1 commenced production in January 2003 and February 2003 respectively.

All gas and condensate production in Ukraine was sold locally at an average price of $54 per thousand cubic metres of gas and $186 per metric tonne of condensate. All sales are paid for in advance.

Kavala sells its oil at a price approximately equal to the prevailing IPE Brent price less a discount of US$3 per barrel. Electricity and sulphur, being bi-products of the oil production, are sold locally at market prices.

Operating Loss

The operating loss for the year was $4,341,000 which includes amounts attributable to minority interests of $1,309,000.

Loss Before and After Tax and after Minority Interest

The loss before and after tax and after minority interests of $2,908,000 included an interest charge of $129,000 and interest earned of $254,000 for the year. The interest charge represents interest paid on funds loaned to the Group prior to the fund raising in October 2003. As at 31 December 2003, the Group had no long term borrowings.

The interest earned reflects the Group's management of cash reserves.

The results include a foreign exchange gain of $1,807,000.

Cash Flow

Net cash outflow from operating activities was $1,060,000.

The capital expenditure outflow of $16,766,000 represented the construction of infrastructure in Ukraine including a gas processing plant, purchase of plant and equipment and drilling of the Kallirachi exploration well in Greece.

As at 31 December 2003, the Group had total cash balances of $28,539,000.

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 are 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.

International Accounting Standards

International Accounting Standards (IAS) will replace UK GAAP for Group consolidated reporting for the year ended 31 December 2005. We are currently assessing the impact on our accounting and systems requirements.

Summary

The financial results for the year to 31 December 2003 are in line with the Company's expectations.

With an institutional placing completed subsequent to the year end in March 2004, Regal is in a strong financial position to fund the continued development and growth of its projects in Ukraine, Greece and Romania.

Glenn Featherby
Finance Director

Regal Petroleum plc

Corporate Governance Statement for the year ended 31 December 2003

Regal 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 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 consists of three executive directors and three 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. 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 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 Regal's articles of association.

The three 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 Regal'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 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 presently comprises Mr 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 2003 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 second 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.

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.

Regal Petroleum plc

Report of the directors for the year ended 31 December 2003

The directors present their report together with the audited financial statements for the year ended 31 December 2003.

Results and dividends

The profit and loss account is set out on page 14 and shows a loss for the year.

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

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, Greece and Romania. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 12 to the accounts.

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

Directors

V F Timis
W H Humphries
G R Featherby
G Nolte *(appointed 1 March 2003)*
Lord Anthony St John *(appointed 29 September 2003)*
N Loutsigkas *(appointed 12 November 2003)*
G J Lee *(resigned 27 May 2003)*
F D Wheatley *(resigned 30 September 2003)*

Directors' Interests

The directors beneficial interests in the share capital of the Company at the beginning and end of the period was as follows:

	Ordinary shares of 5p each			
	31 December 2003 Shares	**31 December 2003 Share options**	**31 December 2002 Shares**	**31 December 2002 Share options**
V F Timis (1)(2)	8,530,887	1,200,000	8,680,887	250,000
W H Humphries	-	850,000	200,000	500,000
G R Featherby (3)	2,074,000	750,000	2,074,000	250,000
G Nolte	1,034,800	300,000	-	-
N Loutsigkas	3,336,284	300,000	-	-
Lord Anthony St John	6,500	500,000	-	-

Directors' Interests *(continued)*

(1) Vasile Frank Timis and G J Lee (a former director of the Company) are beneficiaries of a trust that holds 600,000 ordinary shares. G Lee initially has an interest in possession in the trust. The trustees of such trust are Rathbones 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 600,000 ordinary shares held by the trust are shown as ordinary shares in which both Frank Timis and G Lee are interested.

(2) Vasile Frank Timis has a beneficial interest in 7,930,887 ordinary shares registered in the name of Rathbones Trustees Jersey Limited 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 their issued share capital of the Company at 31 December 2003:

Ballure Trading Limited
Cominvest Asset Management
Henderson Global Investors
Rathbones Trustees Jersey Limited
Schroder Investment Management

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 and 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.

Directors' responsibilities *(Continued)*

Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditors

On 31 December 2003, BDO Stoy Hayward, the Company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as its successor. A resolution to re-appoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the Board

S P West

Secretary
6 April 2004

Regal Petroleum plc

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 2003 on pages 14 to 41 which have been prepared under the accounting policies set out on pages 19 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 Proved and Probable Reserves Summary, 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 2003 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 LLP

BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors
London

6 April 2004

Regal Petroleum plc

Consolidated profit and loss account for the year ended 31 December 2003

	Note	Continuing Operations 2003 $'000	Acquisitions 2003 $'000	Total 2003 $'000	Total 2002 $'000
Turnover	3	2,844	7,350	10,194	583
Cost of sales		(888)	(8,085)	(8,973)	(92)
Gross profit/(loss)		1,956	(735)	1,221	491
Other operating income		1,566	1,400	2,966	-
Administrative expenses		(4,788)	(3,740)	(8,528)	(4,663)
Operating loss	6	(1,266)	(3,075)	(4,341)	(4,172)
Interest receivable				254	110
Interest payable and similar charges	7			(129)	(430)
Loss on ordinary activities before and after taxation				(4,217)	(4,492)
Minority interest				1,309	-
Loss for the financial year	20			(2,908)	(4,492)
Loss per ordinary share (cents)					
Basic	9			4.5¢	10.1¢
Diluted	9			4.5¢	10.1¢

All amounts for 2002 relate to continuing activities.

The notes on pages 19 to 41 form part of these financial statements.

Regal Petroleum plc

Consolidated statement of total recognised gains and losses and reconciliation of movements in shareholders' funds for the year ended 31 December 2003

	Note	2003 $'000	2002 $'000
Statement of total recognised gains and losses			
Loss for the year		**(2,908)**	(4,492)
Exchange differences	20	**488**	(54)
Total recognised gains and losses for the year		**(2,420)**	(4,546)

Reconciliation of movements in shareholders' funds

	Group		Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Loss for the year	**(2,908)**	(4,492)	**(1,411)**	(2,459)
Other recognised gains and losses in the year	**488**	(54)	**-**	-
New share capital subscribed	**3,599**	1,394	**3,599**	4,613
Share Premium	**47,615**	14,754	**47,615**	14,754
Capital contributions	-	2,741	-	-
Net additions to shareholders' funds	**48,794**	14,343	**49,803**	16,908
Opening shareholders' funds	**15,409**	1,066	**16,908**	-
Closing shareholders' funds	**64,203**	15,409	**66,711**	16,908

The notes on pages 19 to 41 form part of these financial statements.

Regal Petroleum plc

Consolidated balance sheet at 31 December 2003

	Note	2003 $'000	2003 $'000	2002 $'000	2002 $'000
Fixed assets					
Intangible assets	10		**2,350**		-
Tangible assets	11		**36,188**		5,873
Investments	12		**203**		54
			38,741		5,927
Current assets					
Stocks	15	**3,626**		-	
Debtors	16	**10,169**		1,652	
Investments		**3,770**		-	
Cash at bank and in hand		**28,539**		8,974	
		46,104		10,626	
Creditors: amounts falling due within one year	17	**(15,441)**		(1,044)	
Net current assets			**30,663**		9,582
Total assets less current liabilities			**69,404**		15,509
Provision for liabilities and charges	18		**(1,253)**		(100)
Minority Interest			**(3,948)**		-
			64,203		15,409
Capital and reserves					
Called up share capital	19		**8,212**		4,613
Share premium	20		**62,369**		14,754
Merger reserve	20		**(3,204)**		(3,204)
Capital contributions	20		**7,477**		7,477
Profit and loss account deficit	20		**(10,651)**		(8,231)
Shareholders' funds – equity			**64,203**		15,409

The financial statements were approved by the Board on 5 April 2004.

G R Featherby
Director

The notes on pages 19 to 41 form part of these financial statements.

Regal Petroleum plc

Company balance sheet at 31 December 2003

	Note	2003 $'000	2003 $'000	2002 $'000	2002 $'000
Fixed assets					
Tangible assets	11		**191**		195
Investments	12		**36,004**		3,273
			36,195		3,468
Current assets					
Debtors	16	**1,146**		4,882	
Investments		**3,146**		-	
Cash at bank and in hand		**26,575**		8,814	
		30,867		13,696	
Creditors: amounts falling due within one year	17	**(351)**		(256)	
Net current assets			**30,516**		13,440
Total assets less current liabilities			**66,711**		16,908
Capital and reserves					
Called up share capital	19		**8,212**		4,613
Share Premium	20		**62,369**		14,754
Profit and loss account	20		**(3,870)**		(2,459)
Shareholders' funds - equity			**66,711**		16,908

The financial statements were approved by the Board on 5 April 2004.

G R Featherby
Director

The notes on pages 19 to 41 form part of these financial statements.

Regal Petroleum plc

Consolidated cash flow statement for the year ended 31 December 2003

	Note	2003 $'000	2003 $'000	2002 $'000	2002 $'000
Net cash outflow from operating activities	23		**(1,060)**		(5,281)
Returns on investments and servicing of finance					
Interest received		**280**		110	
Interest paid		**(130)**		(430)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			**150**		(320)
Capital expenditure and financial investment					
Purchase of tangible fixed assets			**(16,766)**		(3,207)
Acquisition and disposals	21		**(1,547)**		-
Cash outflow before use of liquid resources and financing			**(19,223)**		(8,808)
Management of liquid resources					
Purchase of current asset investments			**(3,168)**		-
Financing					
Proceeds from borrowings		-		186	
Repayment of borrowings		**(185)**		(1,337)	
Capital contributions received		-		2,741	
Issues of ordinary share capital		**44,626**		16,094	
Payment of expenses and commissions on issue of ordinary shares		**(2,601)**		-	
			41,840		17,684
Increase in cash	24		**19,449**		8,876

The notes on pages 19 to 41 form part of these financial statements.

1 Corporate restructuring

During the prior period the Group carried out a corporate restructuring including the introduction of a new holding company. The profit and loss account for 2002 was prepared using merger accounting and was presented on a proforma basis as if the new holding company, Regal Petroleum plc, had been in existence throughout both 2002 and prior periods.

The corporate restructure was 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".

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 2003, using the merger or acquisition method of accounting as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.

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.

2 Accounting policies *(Continued)*

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life which is estimated to be 20 years. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

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.

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.

Tangible 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.

Other tangible fixed assets and depreciation

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
Plant and machinery	-	25% per annum straight line
Exploration and development costs	-	Depreciated on a unit of production basis

2 Accounting policies *(Continued)*

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.

Oil and gas 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 and possible reserves included herein conform to definitions of probable and possible reserves approved by the SPE/WPC using the deterministic methodology.

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).

Stocks

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

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 making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

2 Accounting policies *(Continued)*

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Monetary assets are liabilities in foreign currencies and 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 goodwill arising on the acquisition of foreign subsidiaries is translated at the rate of exchange at the date of acquisition. 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.

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 26:

- 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.

2 Accounting policies *(Continued)*

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.

3 Turnover and net assets

	2003 $'000	2002 $'000
Analysis of turnover by activity:		
Oil sales	**7,121**	-
Gas sales	**2,545**	550
Condensate sales	**299**	26
Sulphur sales	**221**	-
Other	**8**	7
	10,194	583

	2003 $'000	2002 $'000
Analysis of turnover by geographical origin:		
Greece	**7,350**	-
Ukraine	**2,844**	583
	10,194	583

Turnover was wholly attributable to the Group's primary activities.

3 Turnover and net assets *(Continued)*

	2003 $'000	2002 $'000
Analysis of operating profit/(loss) by geographical origin:		
Greece	**(3,076)**	-
United Kingdom	**(1,411)**	(2,459)
Ukraine	**158**	(1,713)
Romania	**(12)**	-
	(4,341)	(4,172)

	2003 $'000	2002 $'000
Analysis of net assets by geographical origin:		
Greece	**13,091**	-
United Kingdom	**32,243**	9,204
Ukraine	**18,540**	6,205
Romania	**329**	-
	64,203	15,409

In view of the early stage of the Group's involvement with these developments this is considered the most meaningful segmental information to provide.

4 Employees

	2003 $'000	2002 $'000
Staff costs consist of:		
Wages and salaries	**2,178**	284
Social security costs	**96**	9
Other pension costs	**19**	6
	2,293	299

The average number of employees during the period (including directors) was as follows:	Number	Number
Part time	**1**	1
Full time	**305**	20
	306	21

5 Directors' Emoluments

	2003 $'000	2002 $'000
Directors' remuneration consists of:		
Fees and emoluments for management services	**741**	107

There were no directors receiving contributions to their defined contribution pension schemes in the year (2002 - Nil).

The emoluments of the individual directors were as follows:

	Basic salary and fees 2003 $'000	Benefits in kind 2003 $'000	Total 2003 $'000	Total 2002 $'000
F D Wheatley	**20**	**-**	**20**	6
W H Humphries	**27**	**-**	**27**	6
Lord Anthony St John	**7**	**-**	**7**	-
V F Timis	**66**	**-**	**66**	6
G Nolte	**266**	**108**	**374**	-
G R Featherby	**187**	**36**	**223**	47
N Loutsigkas	**4**	**-**	**4**	-
G J Lee	**-**	**20**	**20**	42
	577	**164**	**741**	107

In addition to the above, Mr G Nolte, Chief Executive Officer, was paid an introduction fee of £750,000 during the year which he used to subscribe for 1 million Ordinary shares in the Company (refer to Note 19).

6 Operating loss

	2003 $'000	2002 $'000
This has been arrived at after charging/(crediting):		
Listing costs	-	1,782
Depreciation	**2,241**	20
Amortisation of goodwill	**18**	-
Auditors' remuneration - audit services	**96**	75
- non audit services	**7**	603
Hire of other assets – operating leases	**101**	-
Exchange differences	**(1,807)**	217

7 Interest payable and similar charges

	2003 $'000	2002 $'000
Loans	**129**	423
Other loan	-	7
	129	430

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:

	2003 $'000	2002 $'000
Loss on ordinary activities before tax	**4,217**	4,492
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2002 - 30%)	**1,265**	1,348
Effects of:		
Expenses not deductible for tax purposes	**(48)**	(1,012)
Capital allowances for period in excess of depreciation	**1,843**	15
Losses carried forward	**(3,060)**	(351)
Current tax charge for period	-	-

9 Earnings per share

Basic and diluted loss per share has been calculated on the basis of losses after taxation of $2,908,780 (2002 - $4,492,000) and 64,654,847 5p ordinary shares (2002 - 44,383,562 5p ordinary shares on a proforma basis), being the average number of shares in issue during the year to 31 December 2003.

The effect of all potential ordinary shares is antidilutive.

10 Intangible assets

Group	**Goodwill on consolidation $'000**
Cost	
At 1 January 2003	-
Additions	2,368
At 31 December 2003	**2,368**
Amortisation	
At 1 January 2003	-
Provided for the year	18
At 31 December 2003	**18**
Net book value	
At 31 December 2003	**2,350**
At 31 December 2002	-

11 Tangible assets

Group	Fixtures, fittings and equipment $'000	Motor vehicles $'000	Exploration and development costs $'000	Plant and machinery $000	Fixed assets under construction $000	Total $'000
Cost						
At 1 January 2003	228	132	5,573	-	-	5,933
Acquired with subsidiary undertaking	764	168	35,338	1,495	683	38,448
Additions	164	46	16,541	15	-	16,766
Disposals and transfers	-	-	628	-	(628)	-
At 31 December 2003	**1,156**	**346**	**58,080**	**1,510**	**55**	**61,147**
Depreciation						
At 1 January 2003	20	39	1	-	-	60
Acquired with subsidiary undertaking	399	125	21,760	374	-	22,658
Provided for the period	72	4	2,094	71	-	2,241
At 31 December 2003	**491**	**168**	**23,855**	**445**	**-**	**24,959**
Net book value						
At 31 December 2003	**665**	**178**	**34,225**	**1,065**	**55**	**36,188**
At 31 December 2002	208	93	5,572	-	-	5,873

11 Tangible assets *(Continued)*

Company	Fixtures, fittings and equipment $'000	Motor vehicles $'000	Exploration and development costs $'000	Plant and machinery $000	Fixed assets under construction $000	Total $'000
Cost						
At 1 January 2003	200	-	-	-	-	200
Additions	30	-	-	-	-	30
At 31 December 2003	**230**	-	-	-	-	**230**
Depreciation						
At 1 January 2003	5	-	-	-	-	5
Provided for the period	34	-	-	-	-	34
At 31 December 2003	**39**	-	-	-	-	**39**
Net book value						
At 31 December 2003	**191**	-	-	-	-	**191**
At 31 December 2002	195	-	-	-	-	195

12 Fixed assets - investments

Group	**Own shares (note 13) $'000**	**Total $'000**
Cost and net book value		
At 1 January 2003	54	54
Additions	149	149
At 31 December 2003	**203**	**203**

Company	**Group undertakings $'000**	**Own shares (note 13) $'000**	**Total $'000**
Cost and net book value			
At 1 January 2003	3,219	54	3,273
Additions	32,582	149	32,731
At 31 December 2003	**35,801**	**203**	**36,004**

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

Name	**Country of incorporation or registration**	**Voting rights and proportion of ordinary share capital held**	**Nature of business**
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
Eurotech Services SA	Greece	86.1%	Holding company
Kavala Oil SA	Greece	57.7%	Oil and natural gas extraction
Regal Romania SRL	Romania	100%	Oil and natural gas extraction
Regal Hellas SA	Greece	100%	Dormant
Regal Energy Limited	United Kingdom	50%	Dormant

The parent company indirectly controls 57.7% of the share capital of Kavala Oil SA through its 86.1% ownership of Eurotech Services SA which in turn owns 67% of the issued capital of Kavala Oil SA.

13 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 2003, no shares had been conditionally gifted to employees.

Group and Company	**Shares held in trust Number**	**Net nominal value $000**
Cost		
At 1 January 2003	650,000	54
Additions	1,600,000	149
At 31 December 2003	**2,250,000**	**203**

At 31 December 2003, $203,222 (2002 - $54,000) had been loaned by the Company to the EBT to finance the purchase of ordinary shares.

At 31 December 2003, the market value of the interest in own shares was $4,590,000.

14 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 $1,411,350, for the year ended 31 December 2003, which is dealt with in the financial statements of the parent company.

15 Stocks

	2003 $'000	**2002 $'000**
Finished goods	**1,370**	-
Spare parts	**2,256**	-
	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.

16 Debtors

	Group 2003 $'000	Group 2002 $'000	Company 2003 $'000	Company 2002 $'000
Amounts recoverable within one year				
Trade debtors	**4,609**	6	**84**	6
Amounts due from group companies	**-**	-	**551**	4,482
Other debtors	**2,481**	983	**202**	288
Prepayments and accrued income	**873**	663	**309**	106
	7,963	1,652	**1,146**	4,882
Amounts recoverable after more than one year				
Other debtors	**2,206**	-	**-**	-
	10,169	1,652	**1,146**	4,882

17 Creditors: amounts falling due within one year

	Group 2003 $'000	Group 2002 $'000	Company 2003 $'000	Company 2002 $'000
Other loans	**-**	185	**-**	54
Trade creditors	**12,039**	277	**197**	122
Other creditors	**583**	328	**3**	-
Taxation and social security	**1,545**	12	**112**	12
Accruals and deferred income	**1,274**	242	**39**	68
	15,441	1,044	**351**	256

18 Provisions for liabilities and charges

Group	Provision for decommissioning $'000	Provision for retirement benefits $'000	Total $'000
Balance at 1 January 2003	100	-	100
Additions	86	-	86
Acquired with subsidiary undertaking	309	758	1,067
At 31 December 2003	**495**	**758**	**1,253**

In the year ended 31 December 2003, a provision of $395,000 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.

In the year ended 31 December 2003, a provision of $758,000 has been recognised for retirement benefits which represents the present value of future obligations in respect to retirement benefits payable.

No provision has been made for deferred taxation because of the availability of losses. At 31 December 2003 there were approximately $21,864,183 of tax losses available in the various jurisdictions in which the Group operates.

19 Share capital

	Authorised			
	2003 Number	2002 Number	2003 $'000	2002 $'000
Ordinary shares of 5p each (Approximately 8¢ each)	**200,000,000**	80,000,000	**17,905**	6,440

	Allotted, called up and fully paid			
	2003 Number	2002 Number	2003 $'000	2002 $'000
Ordinary shares of 5p each (Approximately 8¢ each)	**100,541,534**	57,316,667	**8,212**	4,613

On 8 January 2003, 150,000 Ordinary shares of 5p each, were issued to Mr F Dewis (a former employee) as consideration for the settlement of legal proceedings at a price of 70 pence per share giving a total consideration amount of $167,948.

19 Share capital *(Continued)*

On 26 September 2003, 200,000 Ordinary shares of 5p each were issued to Mr W Humphries, a non executive director, as consideration for consulting fees owing at a price of 84.5 pence per share giving a total consideration amount of $280,456.

On 23 October 2003, 4,788,200 Ordinary shares of 5p were issued as consideration for the acquisition of 86.11% of the issued share capital of Eurotech Services SA at a price of 80.5 pence per share giving a total consideration amount of $6,512,179.

On 23 October 2003, 35,086,667 Ordinary shares of 5p were issued through an institutional placement at a price of 75 pence per share giving a total consideration amount of $44,661,819.

On 1 March 2003, the Company agreed to pay Mr G Nolte, Chief Executive Officer of the Company, an introduction fee of £750,000 upon the successful acquisition of Eurotech Services SA. Mr Nolte applied this fee to subscribe for 1 million Ordinary Shares of 5p each. These shares were issued on 23 October 2003 at a price of 75 pence per share giving a total consideration amount of $1,272,900.

On 18 December 2003, the Company allotted 2,000,000 Ordinary shares at 5p each: 400,000 Ordinary shares to Mr P Morgan, a former President of Regal Petroleum Corporation Limited, in settlement of legal proceedings at a price of 120.5 pence per share giving a total consideration amount of $851,887 and 1,600,000 Ordinary shares to the Regal Petroleum plc Employee Benefits Trust, in accordance with the Company's executive Option Scheme at a price of 5 pence per share giving a total consideration amount of $141,392.

Senior Executive Share Option Scheme

At 31 December 2003 the following share options were outstanding in respect of the ordinary shares:

		Exercise period		
Year of grant	**Number of shares**	**Start date**	**End date**	**Price per share**
2002	250,000	19 March 2003	19 September 2012	60p
2002	125,000	19 September 2003	19 September 2012	60p
2002	875,000	19 March 2004	19 September 2012	60p
2002	45,000	21 November 2003	21 November 2012	66.5p
2003	20,000	1 January 2004	1 January 2013	71.5p
2003	100,000	26 June 2004	26 June 2013	101.5p
2003	150,000	3 September 2003	3 September 2004	104.5p
2003	650,000	20 November 2003	20 October 2013	75p
2003	10,000	20 April 2004	20 October 2013	75p
2003	950,000	12 December 2003	12 November 2013	85.5p
2003	300,000	12 May 2004	12 November 2013	85.5p
2003	25,000	21 May 2004	21 November 2013	88p
2003	200,000	28 May 2004	28 November 2013	87.5p

20 Capital and reserves

Group	**Share capital $'000**	**Share premium $'000**	**Merger reserve $'000**	**Capital contributions $'000**	**Profit and loss account $'000**	**Total $'000**
At 1 January 2003	4,613	14,754	(3,204)	7,477	(8,231)	15,409
Issued shares	3,599	50,216	-	-	-	53,815
Share issue costs	-	(2,601)	-	-	-	(2,601)
Loss for the year	-	-	-	-	(2,908)	(2,908)
Exchange differences recognised in the year	-	-	-	-	488	488
At 31 December 2003	**8,212**	**62,369**	**(3,204)**	**7,477**	**(10,651)**	**64,203**

Company	**Share capital $'000**	**Share premium $'000**	**Merger reserve $'000**	**Capital contributions $'000**	**Profit and loss account $'000**	**Total $'000**
At 1 January 2003	4,613	14,754	-	-	(2,459)	16,908
Issued shares	3,599	50,216	-	-	-	53,815
Share issue costs	-	(2,601)	-	-	-	(2,601)
Loss for year	-	-	-	-	(1,411)	(1,411)
At 31 December 2003	**8,212**	**62,369**	**-**	**-**	**(3,870)**	**66,711**

21 Acquisitions

Acquisition of Eurotech Services SA and Kavala Oil SA

On 23 October 2003 the Group acquired Eurotech Services SA and Kavala Oil SA for a total consideration of $6,512,000 satisfied by the issue of 4,788,200 shares at 80.5p ($1.36) per share.

In calculating the goodwill arising on acquisition, the fair value of the net assets of Eurotech Services SA has been assessed and provisional adjustments from book value have been made where necessary. These provisional adjustments are summarised in the following table:

	Book value $'000	Accounting policy alignment $'000	Provisional fair value adjustment of fixed assets $'000	Fair value $'000
Fixed assets				
Tangible	4,620	17,302	(7,164)	14,758
Current assets				
Stocks	5,010	-	-	5,010
Debtors	1,786	-	-	1,786
Investments	750	-	(148)	602
Cash	1,176	-	-	1,176
Total assets	13,342	17,302	(7,312)	23,332
Creditors	(10,383)	-	-	(10,383)
Provisions	(2,506)	-	1,376	(1,129)
Net assets	453	17,302	(5,936)	11,820
Minority interest				(4,914)
				6,906
Shares issued				6,512
Costs of acquisition				2,762
				9,274
Net assets acquired				(6,906)
Goodwill arising on acquisition (note 10)				2,368

21 Acquisitions *(Continued)*

Acquisition of Eurotech Services SA *(Continued)*

The adjustment of fixed assets relates to the provisionally assessed fair value of the exploration and development costs on acquisition.

The accounting policy alignment adjustment is in respect of accumulated deprecation of fixed assets to the acquisition date.

The results of Eurotech Services SA prior to its acquisition were as follows:

Profit and loss account

	1 January 2003 to 23 October 2003 $'000
Turnover	25,383
Cost of sales	(26,982)
Gross loss	(1,599)
Other operating income	132
Administrative expenses	(10,155)
Operating loss	(11,622)
Interest receivable	20
Interest payable and similar charges	(110)
Loss on ordinary activities before and after taxation	(11,712)
Minority interest	3,865
Loss for the period	(7,847)

The profit after tax and minority interests, as adjusted for UK GAAP, for the year ended 31 December 2002 was $1,315,392.

21 Acquisitions *(Continued)*

Cash flows	**1 January 2003 to 23 October 2003 $'000**
The net outflow of cash arising from acquisitions was as follows:	
Net overdraft acquired	(58)
Costs of acquisition	(1,489)
Net outflow of cash in respect of Eurotech Services SA	(1,547)

These notes disclose all material cash flow effects of the acquisition.

22 Commitments under operating leases

As at 31 December 2003, the Group had annual commitments under non-cancellable operating leases as set out below:

	2003 Land and buildings $'000	**2002 Land and buildings $'000**
Operating leases which expire:		
In two to five years	**108**	60

23 Reconciliation of operating loss to net cash outflow from operating activities

	2003 $'000	**2002 $'000**
Operating loss	**(4,341)**	(4,172)
Depreciation	**2,241**	20
Amortisation of goodwill	**18**	-
Exchange differences	**(1,007)**	(54)
Increase in debtors	**(4,888)**	(1,381)
Increase in creditors	**3,841**	306
Decrease in stock	**1,735**	-
Movement in provisions	**86**	-
Shares issued in lieu of cash	**1,255**	-
Net cash outflow from operating activities	**(1,060)**	(5,281)

24 Reconciliation of net cash outflow to movement in net funds/(debt)

	2003 $'000	2002 $'000
Increase in cash in the year	**19,449**	8,876
Cash movements relating to debt	**187**	1,098
Increase in current asset investments	**3,168**	-
Change in net funds resulting from cash flows	**22,804**	9,974
Current asset investments acquired with subsidiary	**602**	-
Other non cash changes	**168**	-
Movement in net funds in the year	**23,574**	9,974
Net funds/(debt) at beginning of year	**8,735**	(1,239)
Net funds at end of year (note 25)	**32,309**	8,735

25 Analysis of net funds

	At 1 January 2003 $'000	Cash flow $'000	Acquisition $'000	Exchange differences $'000	At 31 December 2003 $'000
Cash in hand and at bank	8,974	19,449	-	116	**28,539**
Other loans due within one year	(239)	187	-	52	-
Current asset investments	-	3,168	602	-	**3,770**
Net funds	8,735	22,804	602	168	**32,309**

26 Financial Instruments

The Group's financial instruments during each period comprised a mixture of loans, short term investments, cash at bank and various items such as debtors and creditors that arise directly from its operations. The Group uses derivative financial instruments to hedge future oil prices. The Group has bank accounts denominated in British Pounds, US dollars, Euros and Ukrainian Hryvnia. As at 31 December 2003 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.

26 Financial Instruments *(Continued)*

Material functional currency of group operations

		Net foreign currency monetary asset			
	GBP	**Euro**	**UkrH**	**Lei**	**Aus$**
31 December 2003					
US$'000	**25,879**	**(4,379)**	**2,243**	**4**	**-**
31 December 2002					
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 and the issue of share capital. Other sources of finance have been bank loans and other loans.

Fair values of financial instruments

There is no material difference between the book value and fair value of financial assets and liabilities, except for:

	Book value $'000	**Fair Value $'000**
Oil hedging contracts	550	342

27 Related party transactions

During the year ended 31 December 2003, goods and services to the value of $58,054 (2002 - $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. The amount of $58,054 (2002 - $137) was owed to the Group at the end of the year.

During the period ended 31 December 2003, goods and services to the value of $26,040 were paid for by the Group on behalf of Gabriel Resources Limited in the form of a loan. Gabriel Resources is a mineral exploration company based in Canada, in which Frank Timis (Executive Chairman) is a former director. An amount of $26,040 (2002 - $Nil) was outstanding at the end of the year.

The Group used the services of Rathbones, a solicitor firm based in Jersey, where Kiran Patel is serving as a partner. Mr Patel is a director of Regal Petroleum (Jersey) Limited and Regal Petroleum Corporation Limited. During the year ended 31 December 2003, Rathbones charged the Group $63,552 (2002 - $33,846). An amount of $16,300 (2002 - $Nil) was outstanding at the end of the year.

27 Related party transactions *(Continued)*

The Group also used the services of Insinger de Beaufort during the period ended 31 December 2003. 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 $5,477 (2002 - $5,808) in fees, of which there was $Nil (2002 - $Nil) outstanding at the end of the year.

During the year $1.8 million (2002 - $Nil) was loaned to the Group by Pericles Investment Ltd, a company in which Mr W Humphries has a beneficial interest. There was $Nil (2002 - $Nil) outstanding at the end of the year.

28 Post Balance Sheet Events

On 23 March 2004 the Company issued 13,333,334 new ordinary shares at a price of £3.00 per share as part of an institutional placement. The net proceeds of the placing totalled £37.5 million. These funds were raised to develop the Group's assets in Greece and Romania.