



London
Stock Exchange

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STOCK EXCHANGE AIM DISCIPLINARY NOTICE

AD9

PUBLIC CENSURE AND FINE – REGAL PETROLEUM PLC

AIM DISCIPLINARY COMMITTEE

PUBLIC CENSURE AND FINE

In relation to the conduct of

REGAL PETROLEUM PLC

for

**Breach of Rules 9 and 10 of the
AIM Rules for Companies, May 2003 (the “AIM Rules”)**

SUMMARY

1. The London Stock Exchange plc (the “Exchange”) of 10 Paternoster Square, London EC4M 7LS, announces that, following disciplinary proceedings commenced by the Exchange, on 11 November 2009 the AIM Disciplinary Committee (“ADC”) imposed the following sanctions on Regal Petroleum plc (“Regal”):
 - i. a public censure as detailed below; and
 - ii. a financial penalty of £600,000 inclusive of costs.
2. These sanctions were imposed in respect of breaches of AIM Rules 9 and 10 relating to Regal’s notifications during the period from 27 June 2003 to 19 May

2005 ("the Relevant Period") regarding its Kallirachi Prospect and specifically two exploration wells drilled within the Kallirachi Prospect, the Kallirachi-1 and Kallirachi-2 wells. The Kallirachi Prospect is an area in the North Aegean Sea over which Regal's indirect subsidiary Kavala Oil S.A. ("Kavala") held rights for exploration.

3. In contravention of AIM Rule 9, Regal failed to take reasonable care to ensure that the information it notified during the Relevant Period regarding the Kallirachi Prospect was not misleading, false or deceptive and did not omit any information likely to affect the import of the notifications. In particular, Regal failed to take reasonable care by releasing notifications which:
 - (a) used language that created a misleading impression as to the potential commercial viability of the Kallirachi Prospect;
 - (b) were consistently over-optimistic by focusing on the higher end of expectations without adequate explanation of this fact, and omitted an adequate description of the risks associated with the Kallirachi Prospect; and/or
 - (c) did not accurately reflect test results from the Kallirachi wells or the conclusions of independent experts on which the announcements had been based.
4. In contravention of AIM Rule 10, Regal failed to announce without delay the poor test results of the Kallirachi-1 well and its plug and abandonment, and subsequently failed to announce without delay the plug and abandonment of the Kallirachi-2 well.
5. All references to the AIM Rules in this censure are to those in effect at May 2003. Whilst the AIM Rules were amended during the Relevant Period, the rules that are the subject of this censure remained unchanged, other than in respect of their numbering.¹

RELEVANT REGULATORY PROVISIONS

6. Under the AIM Disciplinary and Procedures Handbook (February 2007), if the Exchange considers that an AIM company has breached its responsibilities under the AIM Rules, it can refer the matter to the ADC.
7. Pursuant to the Handbook, if the ADC finds, on the balance of probabilities, that the AIM company has breached the AIM Rules it may impose one or more of the following sanctions:
 - a fine;
 - a censure;

¹ The equivalent rules currently in force are Rules 10 and 11 of the AIM Rules for Companies, June 2009.

- publish the fact that the AIM company has been fined and/or censured and the reasons for such fine or censure; and/or
 - cancel the admission of the company's AIM securities.
8. Under AIM Rule 9, an AIM company must take reasonable care to ensure that any information it notifies is not misleading, false or deceptive and does not omit anything likely to affect the import of such information.
9. The ADC is of the view that the extent to which an AIM company has sought and followed appropriate advice from its nominated adviser on the information it notifies is a relevant matter in determining whether the AIM company has taken reasonable care in accordance with AIM Rule 9. However the AIM company itself retains primary responsibility for the information that it notifies to the market and therefore merely obtaining a nominated adviser's approval of a draft announcement is not sufficient by itself to satisfy the requirement of an AIM company under AIM Rule 9 to take reasonable care.
10. In taking reasonable care to ensure that information to be notified is not misleading, false or deceptive and does not omit anything likely to affect the import of such information, the AIM company should review the announcement from the perspective of a reasonable investor who may be interested in investing in the relevant company. The satisfaction of a company's obligations under Rule 9 depends on the context, taking into account all of the facts and circumstances including any earlier related announcements by the company.
11. Where information to be notified by an AIM company under AIM Rule 9 includes technical terms or phrases which may not be readily understandable to a reasonable investor, the AIM company should ensure that it is clear what is meant by each technical term or phrase used. An AIM company must ensure that the information does not create a false or misleading impression in the context of the whole announcement and other announcements made by the company.
12. Under AIM Rule 10, an AIM company must issue notification without delay of any new developments which are not public knowledge concerning a change in:
- its financial condition;
 - its sphere of activity;
 - the performance of its business; or
 - its expectation of its performance,
- which, if made public, would be likely to lead to a substantial movement in the price of its AIM securities.

BACKGROUND

13. Regal, a company focusing on exploration, development and production of oil and gas assets in various countries including Greece, Ukraine and Romania, was admitted to AIM in September 2002.
14. On 23 October 2003, Regal announced that it had completed its acquisition of an 86% interest in Eurotech Services S.A. ("Eurotech"). At the time, Eurotech itself held a 67% interest in Kavala Oil S.A. ("Kavala"), pursuant to which Regal indirectly acquired a 58% interest in Kavala.
15. Kavala had an agreement with the Greek government, giving it exclusive rights to develop, exploit and operate oil fields in the North Aegean Sea. These included rights to explore the Kallirachi Prospect.
16. In August 2004, Eurotech increased its shareholding in Kavala to 95% bringing Regal's indirect holding in Kavala to 82%. In January 2005, Regal's holding in Kavala was further increased to 95% when it acquired the remaining 14% interest in Eurotech.
17. During the Relevant Period, Regal made a series of announcements to the market about the Kallirachi Prospect and the drilling of the Kallirachi wells. During this Period, Regal's share price rose by almost 500% (peaking at over 500p a share in March 2005) and Regal raised over £100 million via three separate placings in September 2003, February 2004 and April 2005.
18. On 18 May 2005, Regal announced that following completion of testing on the Kallirachi-2 well *"the flow rates from the well were deemed non-commercial"*, resulting in an immediate share price fall of 61% and significant press coverage.
19. These matters led the Exchange to initiate an investigation into Regal's compliance with the AIM Rules during the Relevant Period. Subsequently, the Financial Services Authority ("FSA") decided to investigate the same matters. The Exchange has co-operated with the FSA in relation to this matter and there has been co-ordination of the respective investigations. On 23 January 2008, Regal announced that the FSA and the Exchange had agreed that the FSA would discontinue its investigation in light of the Exchange's proposed referral of this matter to the ADC.

PARTICULARS OF BREACHES

20. The ADC has determined that Regal breached the AIM Rules during the Relevant Period for the reasons set out below.

Announcement on 27 June 2003

21. As at 27 June 2003 Regal's expectations concerning the Kallirachi Prospect were based on an independent expert's evaluation (the "Kavala Evaluation Report").

22. The Kavala Evaluation Report contained an estimated range of prospective resources for the Kallirachi Prospect, which was as follows:

(in MMbbls)	RANGE OF UNCERTAINTY FOR KALLIRACHI PROSPECT	
	Prospective Resources	Undiscovered STOIP
Low estimate	40.68	127.31
Best estimate	96.79	283.89
High estimate	227.39	631.85

23. On 27 June 2003 Regal issued an announcement which described the Kallirachi Prospect as being:

“expected to contain ... in excess of 96 million barrels of recoverable oil (with a potential upside of 227.39 million barrels of recoverable oil)”.

24. Regal’s 27 June 2003 announcement also stated that *“Once the Kallirachi field has been drilled and proven, the second stage development of Kallirachi is expected to yield a daily production of 30,000 barrels per day”.*

25. These statements in the 27 June 2003 announcement were misleading and Regal failed to take reasonable care when making these statements in breach of AIM Rule 9.

26. The language used in the 27 June 2003 announcement did not accurately reflect the conclusions of the Kavala Evaluation Report and misleadingly focused on the upper range of estimates in the report. The announcement wrongly omitted the fact that the low estimate was 40.68 million barrels.

27. The announcement also omitted an adequate description of the risks associated with the Kallirachi Prospect.

28. The statement that the second stage development of Kallirachi was “expected” to yield a daily production of 30,000 barrels per day, was misleadingly optimistic in its tone given the uncertainties that existed at that time relating to the existence of a reservoir, the presence of hydrocarbons and potential flow rates.

29. In addition, the announcement was misleading because it was not made clear that the basis of the expected production figure was not the Kavala Evaluation Report (which readers would reasonably have assumed from the context of the announcement) but that Regal’s expected production figure was in fact solely based on peak production figures from a nearby field.

Announcement on 26 September 2003

30. On 26 September 2003 Regal issued a further announcement concerning the Kallirachi Prospect and announced that it was raising over £24 million by way of a placing. At this time Regal’s prospective resource estimates in relation to the Kallirachi Prospect remained as set out in the Kavala Evaluation Report. Regal’s

26 September 2003 announcement stated that the Kallirachi Prospect was *"expected to contain between 96 and 227 million barrels of recoverable oil"*.

31. Regal failed to take reasonable care when making this announcement, in breach of AIM Rule 9. The language used in the 26 September 2003 announcement did not accurately reflect the conclusions of the Kavala Evaluation Report, did not adequately describe the risks associated with drilling the prospect and misleadingly focused on the upper range of estimates in the report. The announcement omitted the fact that the low estimate was 40.68 million barrels.

Announcement on 19 November 2003

32. On 19 November 2003 Regal issued a further announcement concerning the Kallirachi Prospect and announced that it was raising over £24 million by way of a placing. At this time Regal's prospective resource estimates in relation to the Kallirachi Prospect remained as set out in the Kavala Evaluation Report. Regal's 19 November 2003 announcement stated that the Kallirachi Prospect is *"expected to contain up to 227 million barrels of recoverable oil"*.

33. Regal failed to take reasonable care when making this announcement, in breach of AIM Rule 9. The language used in the 19 November 2003 announcement did not accurately reflect the conclusions of the Kavala Evaluation Report, did not adequately describe the risks associated with drilling the prospect and misleadingly focused on the upper estimate in the report. The announcement omitted the fact that the low estimate was 40.68 million barrels and the best estimate was 96.79 million barrels.

Announcements on 23 January 2004, 13 February 2004, 27 February 2004 and 6 April 2004

34. Regal drilled an exploration well (the Kallirachi-1 well) between November 2003 and January 2004. Drill Stem Tests ("DST") followed the drilling of the well. Testing was carried out on the well between 13 January and 15 January 2004 ("DST-1") and between 16 January and 20 January 2004 ("DST-2"). Expert evaluation of such testing was undertaken over the next week. The Kallirachi-1 well was plugged and abandoned by 27 January 2004.

23 January 2004 announcement

35. On 23 January 2004, Regal announced that drilling had been *"successfully completed"* and *"the presence of hydrocarbons has been detected"*. The announcement stated that the initial results *"confirm the confidence of the Directors in the considerable potential of the Kallirachi field"*. The announcement also included the statement that *"Independent experts estimated that the field may contain up to 227 million barrels of recoverable oil"*.

36. Regal's share price rose 58% on the day of this announcement.

37. In breach of AIM Rule 9, Regal failed to take reasonable care to ensure that its 23 January 2004 announcement properly reflected the actual test results from the

Kallirachi-1 well. The announcement gave a misleading impression as to the commercial potential of the Kallirachi field. Although hydrocarbons had been "detected", the results from the Kallirachi-1 well were disappointing and the well had not flowed oil or gas in commercial volumes from DST-1 or DST-2, both of which were completed prior to this announcement. The test results did not confirm the "*considerable potential of the Kallirachi field*".

13 February 2004 announcement

38. On 27 January 2004, Regal received a report on the DST results from the Kallirachi-1 well by the independent expert Troy-Ikoda (the "Kallirachi-1 Report"). Regal issued an announcement on 13 February 2004 which included the following statements:

"The thickness of the reservoir in Kallirachi-1 is over 300 metres with a net pay zone of 100 metres ..."

"... the [Kallirachi-1] well has proved hydrocarbons down to 2,555m."

"Well data analysis suggests that this well can conservatively produce up to 2,000 bopd [barrels of oil per day]."

"The probable and possible oil-in-place volume is expected to be up to 650MMstb (240 million recoverable)."

39. The 13 February 2004 announcement also included the following statement:

"The Kallirachi find has exceeded our expectations by a considerable margin. The discovery of a sweet oil reservoir of such proportions, with Regal's significant infrastructure already in place in an important EU country, underpins the considerable potential of Regal. Combined with the expected increase in production from Prinos and Prinos North and the planned development of Epsilon, Regal is on the way to becoming a significant oil producer within Europe."

40. Regal's share price rose 17% on the day of this announcement.

41. The ADC considers that, in breach of AIM Rule 9, Regal failed to take reasonable care to ensure that the announcements regarding the Kallirachi-1 well were accurately and clearly communicated to the market.

42. The 13 February 2004 announcement, including the sentiments expressed in it, conveyed the impression that Regal had made a significant oil discovery in Kallirachi and that it had been established that the Kallirachi field was commercially viable. This was not the case and nor was it supported by the conclusions of the Kallirachi-1 Report.

43. The announcement misleadingly implied that Regal had discovered a commercially producible reservoir. The announcement stated that the well data analysis for Kallirachi-1 suggested that this "*well can conservatively produce up to*

2,000 bopd [barrels of oil per day]". This statement was incorrect. The Kallirachi-1 Report had only stated that such a flow rate might be achieved if a 2,000 foot horizontal well was drilled. In other words, it was a calculated potential flow rate based on a theoretical horizontal well, based on a series of reservoir and fluid characteristics assumed by the independent expert. The announcement also failed to state that the well had in fact been plugged and abandoned by 27 January 2004, over two weeks before this announcement.

44. In the context of this announcement references to "*net pay zone*" and "*proved hydrocarbons*" misleadingly implied commerciality in the context of other statements in the announcement. The use of the word "proved" implied a level of certainty associated with a particular reserve which was not the case.
45. The announcement also omitted an explanation of why the estimate of "*oil in place*" and "*recoverable oil*" had increased from the previously reported estimates contained in the Kavala Evaluation Report. The announcement also omitted a description of the best and low prospective resource estimates of the Kallirachi Prospect.

Kallirachi-1 Report - late notification

46. Regal received the DST results by 20 January 2004 and the Kallirachi-1 Report on 27 January 2004. The Kallirachi-1 well was plugged and abandoned by 27 January 2004. The ADC has determined that, on the balance of probabilities, Regal would have been aware of these developments on or shortly after 27 January 2004. The well tests at the Kallirachi-1 well were poor. The findings set out in the Kallirachi-1 Report and the plug and abandonment of the Kallirachi-1 well constituted a new development which was not public knowledge which, if made public, would have been likely to lead to a substantial movement in the price of its AIM securities. Regal's failure to disclose the poor well test results of the Kallirachi-1 well and its plug and abandonment, together with an adequate explanation, on or shortly after 27 January 2004 was in breach of AIM Rule 10.

27 February 2004 announcement

47. On 27 February 2004, Regal made a further announcement which repeated the estimate of "*up to 650MMstb (240 MMbbls recoverable)*". On the same day, Regal announced a placing raising £37.5 million.
48. Regal failed to take reasonable care when making this announcement, in breach of AIM Rule 9. The 27 February 2004 announcement misleadingly focused on the upper estimate and failed to explain why this figure had increased from the previously reported estimates contained in the Kavala Evaluation Report. The announcement also omitted a description of the best and low prospective resource estimates of the Kallirachi Prospect.

6 April 2004 announcement

49. On 6 April 2004, Regal announced that there were "*expected recoverable reserves of up to 240MMbbls in the Kallirachi oil discovery*" and that "*the*

discovery of the exciting Kallirachi prospect ... has provided considerable upside to the potential of Regal becoming a leading hydrocarbon producer in the region".

50. This announcement was misleading and Regal failed to take reasonable care when making it, in breach of AIM Rule 9.
51. The 6 April 2004 announcement conveyed the impression that Regal had made a significant oil discovery in Kallirachi and that it had been established that the Kallirachi field was commercially viable. This was not the case and nor was it supported by the conclusions of the Kallirachi-1 Report.
52. The 6 April 2004 announcement also misleadingly focused on the upper estimate and failed to explain why this figure had increased from the previously reported estimates contained in the Kavala Evaluation Report. The announcement also omitted a description of the best and low prospective resource estimates of the Kallirachi Prospect.
53. During the period from 23 January 2004 to 6 April 2004, Regal's share price rose by around 166%, with the monthly trading value for Regal's shares in February 2004 at approximately 15 times the sector average for that month.

Announcements on 27 September 2004 and 21 October 2004

54. Regal released announcements on 27 September 2004 and 21 October 2004, which described the conclusions of an independent study of the Kallirachi Prospect as:
- (a) *"indicating up to 1 billion hydrocarbons in place";*
 - (b) *"confirming the volumetric estimate of up to 1 billion barrels in place".*
55. These two statements were misleading and Regal failed to take reasonable care in breach of AIM Rule 9 by only referring to the uppermost estimate of 1 billion barrels without disclosing the range of estimates contained in the independent study, which included a best estimate of 671MMbbls and low estimate of 361MMbbls.
56. Regal was also in breach of AIM Rule 9 by failing to take reasonable care to explain in the announcement that this estimate was theoretical in nature and had been qualified by associated caveats in the study and that the study was prepared to establish a basin wide geological model rather than complete a reservoir evaluation for the purposes of estimating resources, similar to the Troy-Ikoda Kavala Evaluation Report.

Announcements on 25 April 2005 and 18 May 2005

57. In October 2004, Regal began drilling a further well, the Kallirachi-2 well. The well was tested 13 times from 12 February 2005 to 16 May 2005. The well was plugged and abandoned by 16 May 2005. The decision to plug and abandon was made earlier, most likely on 11 May 2005.

58. By 25 April 2005, drilling on the Kallirachi-2 well had been completed, the well logs had been analysed and 8 DSTs had been carried out on an important target (the Dolomitic zone, the deepest tested horizon) over a period of two months starting on 12 February 2005 and completing on 24 April 2005. On the evidence before it, the ADC concluded that the Dolomitic zone was either the primary target or at least it was a very important target in the exploration of the well. The well logs and test results were not positive.

59. On 25 April 2005, Regal announced a share placing raising almost £45 million. On the same day, Regal made an announcement regarding the progress of testing on the Kallirachi-2 well and stated that:

"The bottom prospective reservoir, a Dolomite formation, has been tested with light oil shows, good reservoir pressure and porosity but low permeability. Further testing of the upper three prospective reservoirs (including reservoirs corresponding to Prinos Group equivalent) continues."

60. The 25 April 2005 statement omitted the fact that eight DSTs had been completed and to that date evidenced non-commercial flow rates for the Kallirachi-2 well. The announcement conveyed the incorrect impression that the three higher level reservoirs which were yet to be tested were of the same importance as the Dolomitic zone. Having considered the available evidence, the ADC has concluded that after failure at the Dolomitic zone, Regal might reasonably have proceeded with tests at the three higher levels but would have been aware that the chances of success were diminishing. This risk of failure is not reflected in Regal's announcement. It therefore conveyed a misleading impression as to the likelihood that testing of those three reservoirs would produce positive results.

61. In the circumstances, the ADC considers that Regal breached AIM Rule 9 by not taking reasonable care to ensure that all relevant matters regarding the testing of the Kallirachi-2 well were accurately and fully disclosed in the announcement on 25 April 2005.

62. On or around 11 May 2005, Regal commenced the plug and abandonment of the Kallirachi-2 well.

63. Given the importance of the Kallirachi-2 well in determining the commerciality of the Kallirachi Prospect, the ADC considers that the plug and abandonment of the Kallirachi-2 well should have been disclosed by Regal without delay in accordance with AIM Rule 10. No such announcement was issued by Regal.

64. On 18 May 2005, Regal announced that testing on the Kallirachi-2 well was completed and that *"due to low permeability the flow rates from the well were deemed non-commercial"*. A further announcement on the following day sought to clarify the dates on which the tests on the Kallirachi-2 well had been completed. This announcement omitted to explain why the date of testing the Evaporite zone (16 May 2005) post-dates the decision to plug and abandon the well (11 May 2005). The plug and abandonment of the well was completed by 16 May 2005.

65. These announcements caused Regal's share price to fall by approximately 65% and resulted in significant adverse press coverage.

Conclusion

66. In the circumstances, the ADC has determined that Regal failed to take reasonable care in breach of AIM Rule 9 during the Relevant Period by releasing 11 notifications which:

- (a) used language that created a misleading impression as to the potential commercial viability of the Kallirachi Prospect;
- (b) were over-optimistic by focusing on the higher end of expectations without adequate explanation of this fact, and omitted an adequate description of the risks associated with the Kallirachi Prospect; and/or
- (c) did not accurately reflect test results from the Kallirachi wells or the conclusions of independent experts on which the announcements had been based.

67. The ADC has also concluded that Regal breached AIM Rule 10 during the Relevant Period by failing to announce without delay the poor test results of the Kallirachi-1 well and its plug and abandonment, and by failing to announce without delay the plug and abandonment of the Kallirachi-2 well.

SANCTION

68. In determining the appropriate sanction against Regal in respect of the above breaches of the AIM Rules, the ADC has taken into account all of the circumstances, including the following matters:

- there were numerous breaches of AIM Rules by Regal over a two year period from June 2003 to May 2005;
- the breaches were serious in nature, including (but not limited to):
 - notification of misleading information in, and omitting material information from, announcements to the market on 11 separate occasions; and
 - failure to notify the market, without delay, of material developments in respect of the Kallirachi wells.
- the market impact of Regal's breaches was significant, as evidenced by the following matters:
 - Regal's share price, which was just over 100p at the end of June 2003, peaked in March 2005 to over 500p (an increase of over

500%), including a 166% rise in the period from January 2004 to April 2004;

- the overall value traded (price and volume) of Regal's shares was consistently at least 200% higher than the sector average throughout the Relevant Period, exceeding sector average by 1900% in March 2005;
 - three fundraisings (raising a total of over £100 million) were conducted by Regal during the Relevant Period following announcements that were in breach of the AIM Rules; and
 - the share price fell by over 60% on 18 May 2005, when the actual test results of the Kallirachi-2 well were finally announced;
- the number, nature and duration of the breaches demonstrate a systematic pattern of conduct evidencing a reckless disregard for the AIM Rules by Regal;
 - due to the size and high profile of Regal, the breaches gave rise to significant publicity and caused considerable damage to the integrity and reputation of AIM as a whole;
 - the size and financial resources of Regal;
 - while the primary responsibility for information notified to the market remained with Regal, each of the announcements appears to have been provided to Regal's nominated adviser in draft prior to its release;
 - Regal has had no previous disciplinary findings against it; and
 - since the breaches were committed, the senior management of Regal (including its Board of Directors) has undergone significant changes and, the ADC understands, Regal has implemented improved reporting systems.

BOB BEAUCHAMP
Manager, AIM Investigations & Enforcement
AIM Regulation