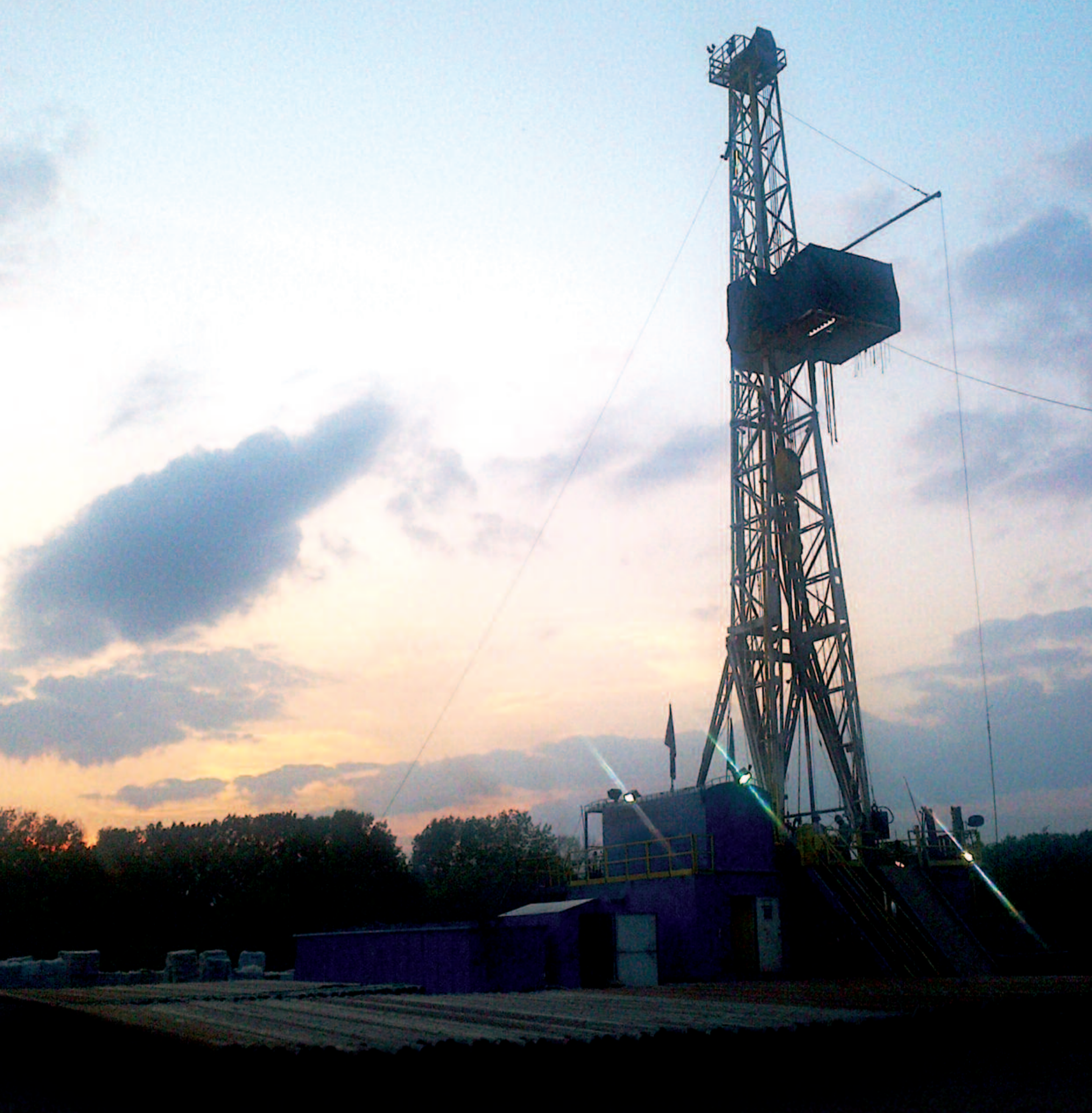
Nostra Terra

OIL & GAS COMPANY PLC



Annual report 2011

Highlights

- Substantial interests acquired in Colorado and Oklahoma
- Production in Kansas, Texas and Colorado
- Own play launched in Oklahoma
- Full ownership and operatorship assumed on Bloom property in Kansas; foreclosure proceedings subsequently initiated in relation to HPI settlement agreement
- Operating loss for the year £996,000 (2010: £591,000)
- £5 million financing agreement (expandable to £10 million) and US$1 million promissory note (expandable to US$3 million) with YA Global
- First Verde well continues to perform above expectations.

Contents

Company information

Directors	Sir Adrian Blennerhassett (Non-executive Chairman) Matt Lofgran (Chief Executive Officer) Alden McCall (Chief Operating Officer) Stephen Oakes (Non-executive Director)
Secretary	International Registrars Limited
Registered office	Finsgate 5-7 Cranwood Street London EC1V 9EE
Registered number	05338258 (England and Wales)
Auditor	Jeffreys Henry LLP Finsgate 5-7 Cranwood Street London EC1V 9EE
Nominated adviser	Shore Capital and Corporate Limited Bond Street House 14 Clifford Street London W1S 4JU
Broker	Alexander David Securities Limited 10 Finsbury Square London EC2A 1AD
Solicitors	Ronaldsons LLP 55 Gower Street London WC1E 6HQ
Bankers	National Westminster Bank plc PO Box 712 94 Moorgate London EC2M 6XT
Registrars	Share Registrars Ltd Suite E, First Floor 9 Lion & Lamb Yard Farnham Surrey GU9 7LL
Website	www.ntog.co.uk

Chairman's statement

Dear shareholder

I am pleased to present the annual report and accounts of Nostra Terra Oil and Gas Company plc for the year ended 31 December 2011.

2011 was a busy and productive year for the company, in which we significantly increased our work programme and successfully expanded our asset base within the resurgent US onshore industry.

This carefully targeted growth began in the first weeks of the year with two small acquisitions in Texas – a 1% interest in the Vintage Hills Prospect Unit and a 3% interest in the Nesbitt Prospect Unit. A horizontal well was drilled on each of these properties in the first half of the year, and both are now in production.

We then set out to scale up our pipeline of development prospects. By mid-year we had acquired larger interests in two multi-well properties – the Verde Prospect Unit in Colorado (16.25% working interest) and the Bale Creek Prospect Unit in Oklahoma (30% working interest).

The initial Verde well was drilled in the third quarter and is producing above our expectations. The first of several potential horizontal wells on the Bale Creek property was drilled after the year end, and is currently in the process of being completed. It will be tested as the second Bale Creek well is being drilled.

Just a few days after the end of the reporting period, the company made a further substantial acquisition, of a 10% working interest in the Warrior Prospect Unit in Oklahoma. Six potential horizontal well locations have been identified on Warrior; the first of these has now been drilled, and the well will be completed and tested very shortly.

In our interim report last September, we detailed the terms of the revised agreement reached between Nostra Terra and HPI (now Richfield Oil & Gas) to terminate the arrangements between them, which related mainly to properties in Kansas and Utah. Regrettably, the US$1.3 million secured loan note issued by Richfield under the terms of that agreement was not paid when due on 31 January 2012, and we are currently in the process of recovering against the collateral.

Despite this distraction, we are encouraged by the progress made in building our asset base during 2011, and I believe the company is well positioned, financially and technically, to identify and secure many more value-adding growth opportunities in the future.

As always, I wish to thank all Nostra Terra's shareholders for their continuing loyalty, and we look forward to keeping you informed about our further progress in the months and years ahead.

Sir Adrian Blennerhassett
Chairman

29 May 2012

Chief Executive's review

Throughout 2011, Nostra Terra continued to expand its asset base within established hydrocarbon regions of the US. A dramatic renaissance is under way in these historic producing regions, with Goldman Sachs predicting recently that the US could once again become the world's largest oil producer.

The key to this transformation – and the cornerstone of our own growth strategy – is the use of precision drilling technology, including horizontal drilling, combined with 3D seismic mapping, sophisticated log suites and multi-stage well completions in order to target and exploit compartmentalised reservoirs that were underproduced or overlooked when the original vertical wells were drilled in these mature fields.

The recent surge in technological innovation within the US was initially driven by shale gas, but these value-adding techniques are now being adapted successfully to oil plays, which are the focus of Nostra Terra's growth strategy.

Stepping up our growth

Having acquired small working interests in three successful horizontal wells in Texas in 2010 and the beginning of 2011, Nostra Terra stepped up its efforts to identify, screen and acquire larger percentage interests and acreage holdings in order to increase the scale of its operations and revenues.

The two small acquisitions made in January 2011 were a 1% interest in the Vintage Hills Prospect Unit and a 3% interest in the Nesbitt Prospect Unit. The first well on each of these prospects was drilled early in the year, and both wells are currently in production.

By mid-year, we had signed two agreements to acquire larger interests in properties with multi-pay potential.

The first of these was the Verde Prospect Unit covering 636 acres in south-eastern Colorado, in which we hold a 16.25% interest with Plainsmen Partners LLC as operator. The initial vertical well, targeting the Mississippian formation, was brought into production in September and at year end was producing approximately 50 barrels of oil per day (bopd). The well has served to derisk the prospect unit for any potential subsequent wells.

The second agreement, with operator Pathfinder Development Capital LLC, was for a 30% interest in the Bale Creek Prospect in northern Oklahoma. This prospect lies within a highly productive and extensively mapped trend, with multi-pay potential from as many as eight reservoirs.

It is planned to develop Bale Creek in two phases, with the first phase consisting of acquisition and interpretation of proprietary 2D and 3D seismic data, followed by drilling of a vertical pilot hole to determine the most promising of the several potentially productive zones within the prospect area, after which horizontal wells will be drilled and the required production and transmission facilities will be constructed.

Following completion of the seismic programme before year end, and of the pilot borehole in March 2012, the first horizontal well has been drilled and is in the process of being completed prior to testing. The second Bale Creek horizontal well was spudded in mid-May.

Also after the end of the financial year, Nostra Terra continued to build its portfolio by entering into an agreement with Crown Energy Company Inc. to acquire a 10% interest in the Warrior Prospect. Like Bale Creek, Warrior lies within a prolific oil system in Oklahoma, and contains multiple, stacked reservoirs. Several potential horizontal well locations have been identified within the prospect areas. The first Warrior well reached planned depth in May, and is also in the process of being completed prior to testing.

Financial

Nostra Terra incurred an operating loss for the year of £996,000 (2010: £591,000), while revenues rose to £244,000 from £137,000 in the prior year.

In June 2011, we successfully raised £2 million before expenses by way of a placing of 333,333,335 new shares at 0.6 pence per share. We were pleased to secure the support of both retail and institutional investors in this fundraising, which is being used for working capital as we step up the pace of our growth.

In September, we further increased our financial flexibility by entering into a Standby Equity Distribution Agreement (SEDA) with YA Global. Under this agreement, YA Global has committed to subscribe, if requested by the company, for up to £5 million of ordinary shares over a period of three years. The shares will be priced at 96% of the lower of the daily volume weighted average price during the 10-day pricing period following a draw down request, or at a price agreed in writing between the two parties prior to the commencement of the pricing period. Nostra Terra also has the right to set a minimum acceptable price for each draw down, and to increase the commitment amount to £10 million at any time during the three-year term of the SEDA.

We continue to identify opportunities to grow and upgrade our asset base. While most of these are within our existing financial resources, we want to ensure that we are able to enter negotiations on a wide range of potential acquisitions in the strongest possible position. The SEDA provides another strategic option in securing the most attractive deals that will add maximum value for our shareholders.

At year end, the company held cash reserves of £1,457,133.

Post year end, Nostra Terra entered into a loan facility of up to US$3 million with YA Global, which is supported by the SEDA detailed above. The initial advance will be US$1 million, subject to interest at a rate of 10% per annum for a term of 360 days, and will be repaid in 10 monthly instalments commencing in July 2012. The proceeds from the initial advance will be used to step up the company's leasing programme and to provide additional working capital for its expanding activities.

Also after the end of the financial year, Nostra Terra was obliged to initiate foreclosure proceedings against Richfield Oil & Gas Company, formerly Hewitt Petroleum, Inc ("Richfield"). Under the terms of the revised agreement announced by the parties on 14 April 2011, Richfield issued to Nostra Terra a US$1.3 million secured loan note which matured on 31 January 2012 and had been accruing interest at 10% per annum from the date of issue.

The company granted Richfield a one-month extension to the repayment deadline. However, as no funds were received by that date, Nostra Terra has been obliged to begin the process of recovering against the collateral, which consists of producing leases in Kansas and non-producing leases in Utah.

Controlling our own destiny

During 2011, we expanded and upgraded our asset portfolio and prospect pipeline significantly. We are very encouraged by the results so far on Verde, Bale Creek and Warrior, and intend to continue building our portfolio in this way.

As well as partnering with experienced regional operators, Nostra Terra is also looking to acquire and develop properties as operator and sole or majority interest holder. Towards the end of the financial year, we initiated the development of our own play in which we aim to establish a strong acreage position and generate multiple prospects. We will initially hold 100% ownership of leases within the play, giving us greater control over the pace and scale of our future growth.

The project area extends over several counties in Oklahoma, and was identified following months of intensive geological investigation. It lies within a proven and well mapped hydrocarbon system containing shallow oil and liquids-rich gas in stacked, multi-pay formations. The company has engaged a team of experienced geologists and landmen to identify drilling targets and secure leases throughout the area. Our objective is to create value over a much larger area controlled by the company.

During the last two years, Nostra Terra has demonstrated its ability to find new oil from old fields in the US Mid-Continent region using the most advanced exploration, drilling and production techniques. Our primary focus throughout 2012 and beyond is to increase the number and quality of our producing wells, and to progress our long-term strategic plan of generating and operating prospects internally as well as through partnerships in order to build our reserve base and deliver steady, material and growing cash flow.

Matt Lofgran
Chief Executive Officer

29 May 2012

Directors' report

The directors present their report with the financial statements of Nostra Terra Oil and Gas Company plc ("Company") and its subsidiaries (collectively "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITY

The principal activity of the Group is the exploitation of hydrocarbon resources in the US Mid-Continent.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The results for the year and financial position of the Company and the Group are as shown in the annexed financial statements and noted in the Chairman's statement and Chief Executive's review.

KEY PERFORMANCE INDICATORS

At this stage in the company's development, the key performance indicators that the directors monitor on a regular basis are management of liquid resources – that is, cash flows and bank balances, general administrative expenses, which are tightly controlled, and the level of production.

KEY RISKS AND UNCERTAINTIES

The key risk in the exploration and production business is the technical risk of no hydrocarbons being present when an exploration well is drilled. While the US Mid-Continent is a proven hydrocarbon region and is seeing a resurgence through the application of new drilling and well completion technologies, there are environmental and economic risks in the US Mid-Continent as there are in any hydrocarbon region.

RESULTS AND DIVIDENDS

The loss for the year was £995,685, which has been allocated against reserves. No dividends will be distributed for the period ended 31 December 2011.

DIRECTORS

The following directors have held office since 1 January 2011:

A M Blennerhassett
M B Lofgran
S V Oakes
A McCall

M B Lofgran will retire at the Company's forthcoming Annual General Meeting under the Articles of Association of the Company and, being eligible, offers himself for re-election.

Remuneration of the directors for the year is summarised as follows:

	Salaries £	Fees £	Total £
A M Blennerhassett	–	18,000	18,000
M B Lofgran	97,050	–	97,050
S V Oakes	–	18,000	18,000
A B McCall	87,345	–	87,345
	184,395	36,000	220,395

There were no benefit-in-kind or share-based payments during the year.

The beneficial interests of the directors holding office on 31 December 2011 in the issued share capital of the Company were as follows:

	31.12.11		01.01.11	
	No of ordinary shares of 0.1p each	**Percentage of issued share capital**	**No of ordinary shares of 0.1p each**	**Percentage of issued share capital**
A M Blennerhassett	6,580,000	0.34%	5,500,000	0.43%
M B Lofgran	79,000,000	4.05%	15,000,000	0.96%
S V Oakes	14,166,666	0.73%	14,166,666	0.91%

The numbers of options outstanding to the directors at 31 December 2011 are as follows:

	31.12.11 No of warrants exercisable at 0.1p each	**01.01.11 No of warrants exercisable at 0.1p each**
M B Lofgran	217,842,506	280,342,506
A B McCall	40,000,000	40,000,000

SUBSTANTIAL SHAREHOLDERS

As at 22 May 2012, the Company was aware of the following interests in the issued share capital of the Company:

	No of ordinary shares of 0.1p each	**Percentage of issued share capital**
TD Waterhouse Nominees (Europe) Limited	288,101,358	14.77%
Barclayshare Nominees Limited	287,182,793	14.73%
HSDL Nominees Limited	257,596,266	13.21%
JIM Nominees Limited	202,035,852	10.36%
HSBC Client Holdings Nominee (UK) Limited	122,724,550	6.29%
Hargreaves Lansdown (Nominees) Limited	115,607,917	5.93%
L R Nominees Limited	106,909,118	5.48%
Investor Nominees Limited	104,372,701	5.35%
M B Lofgran	79,000,000	4.05%
Share Nominees Ltd	70,871,109	3.63%

POLITICAL AND CHARITABLE CONTRIBUTION

The Group made no political or charitable contributions during the year.

COMPANY'S POLICY ON PAYMENT OF PAYABLES

It is the Group's normal practice to make payments to suppliers in accordance with agreed terms provided that the supplier has performed in accordance with the relevant terms and conditions. The Group does not follow any code or statement policy. Creditor days at the end of the year were 30 (2010: 88) days.

EVENTS AFTER THE REPORTING PERIOD

Refer to note 25 for details.

PUBLICATION OF ACCOUNTS ON COMPANY WEBSITE

Financial statements are published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The directors' responsibility also extends to the financial statements contained therein.

INDEMNITY OF OFFICERS

The Group may purchase and maintain, for any director or officer, insurance against any liability and the Group does maintain appropriate insurance cover against legal action bought against its directors and officers.

FINANCIAL INSTRUMENTS

The Group does not have formal policies on interest rate risk or foreign currency risk. The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than pounds sterling (£). The Group maintains a natural hedge that minimises the foreign exchange exposure by matching foreign currency income with foreign currency costs.

The Group does not consider it necessary to enter into foreign exchange contracts in managing its foreign exchange risk resulting from cash flows from transactions denominated in foreign currency, given the nature of the business, for the time being.

GOING CONCERN

After making appropriate enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

REMUNERATION COMMITTEE

The Remuneration Committee takes into account both Group and individual performance, market value and sector conditions in determining directors' remunerations. The Group has maintained a policy of paying only minimum salaries compared with peer companies in the oil and gas sector until the Company has established a good position with acreage, assets, income and cash at hand. All current salaries are without pension benefits.

LISTING

The Company's ordinary shares have been trading on London's Alternative Investment Market ("AIM") since 20 July 2007. Shore Capital and Corporate Limited is the Company's Nominated Advisor and Alexander David Securities Limited is the Company's Broker. The closing mid-market price at 31 December 2011 was 0.39p (2010: 0.37p).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- follow IFRS as adopted by the European Union.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

AUDITORS

In accordance with Section 485 of the Companies Act 2006, a resolution that Jeffreys Henry LLP be reappointed as auditors of the Company will be put to the Annual General Meeting.

On behalf of the Board:

M B Lofgran
Director

29 May 2012

Corporate governance report

The directors recognise the importance of sound corporate governance commensurate with the Group's size and the interests of shareholders. As the Group grows, policies and procedures that reflect the FRC's UK Corporate Governance Code will be developed. So far as is practicable and appropriate, taking into account the size and nature of the Company, the directors will take steps to comply with the UK Corporate Governance Code.

The Board of Directors

The Board is comprised of two executive directors and two non-executive directors.

The Board meets at least four times a year as issues arise which require Board attention. The Board has a formal schedule of matters specially referred to it for decision. The directors are responsible for the management structure and appointments, consideration of strategy and policy, approval of major capital investments and transactions, and significant financing matters.

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee, the respective roles and responsibilities of which are discussed below.

Audit Committee

An Audit Committee has been established and currently comprises A M Blennerhassett as Chairman and S V Oakes. Both have considerable and relevant financial experience.

The Audit Committee, which has terms of reference agreed by the Board, meets at least twice a year and is responsible for ensuring the integrity of the financial information reported to the shareholders and the systems of internal controls. This committee provides an opportunity for reporting by the Company's auditors.

The Audit Committee is responsible for monitoring, in discussion with the auditors, the integrity of the financial statements and announcements of the Company; reviewing the Company's internal financial controls and risk management systems; reviewing and monitoring the external auditor's independence, objectivity and effectiveness of the audit process, taking into consideration relevant UK and other professional and regulatory requirements.

The Audit Committee is also responsible for making recommendations to the Board to be put to shareholders for their approval in general meeting in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor. Other responsibilities include considering annually whether there is a need for an internal audit function and making a recommendation to the Board, and reviewing arrangements by which the staff of the Group will be able to raise concerns about possible improprieties in matters of financial reporting or other matters related to the Group.

Remuneration and Nomination Committees

The Remuneration and Nomination Committees, which meet at least twice a year, consist of A M Blennerhassett as Chairman and S V Oakes. Based on the terms of reference approved by the Board, the Remuneration Committee is responsible for determining and agreeing with the Board the framework or broad policy for the remuneration of the Chief Executive Officer, the Chairman and other members as it is designated to consider. It is also responsible for setting the remuneration for all executive directors, the Chairman and the Company Secretary; recommending and monitoring the level and structure of remuneration for senior management; and determining targets for any performance-related pay schemes operated by the Group. The Remuneration Committee is also responsible for determining the policy and scope of pension arrangements for each executive director and for ensuring that contractual terms on termination and any payments made are fair to the individual and the Company.

The Remuneration Committee will determine the terms and conditions of service of executive directors. This includes agreeing the policy for authorising claims for expenses from the Chief Executive Officer and the Chairman and, within the terms of the agreed policy, recommending the total individual remuneration package of each executive director including, where appropriate, bonuses, incentive payments and share options. The Nomination Committee is responsible for ensuring all director appointments are considered by the Committee before their formal recommendation to the Board for approval.

Relations with shareholders

Communications with shareholders are very important and therefore are given a priority. The Company maintains a website, www.ntog.co.uk, for the purpose of improving information flow to shareholders as well as potential investors. It contains information about the Company's activities, and annual and interim reports. Shareholders are welcome to make enquiries on any matters relating to the business and to their shareholdings. The Company encourages shareholders to attend the Annual Meeting, at which they will be given the opportunity to put questions to the Chairman and other members of the Board.

Internal financial control

The Board is responsible for establishing and maintaining the Company's system of internal controls and for reviewing their effectiveness. They are designed to safeguard the assets of the Company and to ensure the reliability of the financial information for both internal use and external publication. The controls that include inter alia financial, operational and compliance matters and management are reviewed on an ongoing basis. A system of internal control can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected or that risk of failure to achieve business objectives is eliminated. The Board has considered the need for an internal audit function but because of the size and nature of its operations does not consider it necessary at the current time.

Board of directors

Sir Adrian Blennerhassett, Non-Executive Chairman

Previous positions held by Sir Adrian (72) include General Manager for Claremount Oil & Gas Limited and Technical Director at Peninsula Petroleum Limited. More recently, he had 11 years' experience in corporate finance with Anglo European Amalgamations Limited and Chesham Amalgamations and Investments Limited. He studied geology at McGill University in Montreal, has an MSc in Geology from Imperial College, London, and an MBA from Cranfield School of Business Management.

Matt Lofgran, Chief Executive Officer

Matt Lofgran (37) has wide experience of business development in the energy, real estate and communications sectors. Prior to becoming CEO of Nostra Terra in July 2009, he was with Robson Energy, LLC, latterly as Vice President of International Business Development. In this capacity, he launched the oil and gas, field services and coal divisions, and was responsible for extending Robson Energy's activities into Mexico. Mr Lofgran holds a Bachelor of Business Management degree from the University of Phoenix and a Global MBA from Thunderbird School of Global Management.

Alden McCall, Chief Operating Officer

Alden Branine McCall (61) has over 26 years' experience of project management, business development, capital acquisition and consulting in oil and gas exploration and new production technologies. Prior to joining Nostra Terra, he was Principal and General Manager of Dallas-based AMX Consulting Services, LLC, delivering technical and commercial expertise to both public and private companies engaged in conventional and unconventional petroleum exploration and production. Mr McCall is a Certified Petroleum Geologist and is a member of the American Association of Petroleum Geologists, the Society of Petroleum Engineers, the Oklahoma Geological Society, the Fort Worth Geological Society and the Houston Geological Society.

Stephen Vaughan Oakes, Non-Executive Director

Stephen Oakes (56) has over 35 years' experience in financial markets and is a Fellow of the Securities Institute. He is a former Chief Executive Officer, HSBC Investment Management. Since 2003, he has worked with a number of smaller AIM and Plus Markets-quoted companies.

Independent auditors' report

to the shareholders of Nostra Terra Oil and Gas Company plc

We have audited the group and parent company financial statements of Nostra Terra Oil and Gas Company plc for the year ended 31 December 2011, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flow, consolidated and company statements of changes in equity and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all financial and non-financial information in the Chairman's Statement, Chief Executive's Review, Directors' Report and Corporate Governance Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Sanjay Parmar
SENIOR STATUTORY AUDITOR
For and on behalf of Jeffreys Henry LLP, Statutory Auditor

Finsgate
5-7 Cranwood Street
London
EC1V 9EE
United Kingdom

29 May 2012

Consolidated income statement

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Revenue		244	137
Cost of sales		(370)	(256)
GROSS LOSS		(126)	(119)
Administrative expenses		(933)	(472)
OPERATING LOSS	5	(1,059)	(591)
Finance income	4	63	–
LOSS BEFORE TAX		**(996)**	**(591)**
Tax (expense) recovery	6	–	–
LOSS FOR THE YEAR		**(996)**	**(591)**
Attributable to:			
Owners of the Company		**(996)**	**(591)**
Earnings per share expressed in pence per share:			
Continued operations			
Basic and diluted (pence)	8	(0.056)	(0.038)

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	2011 £000	2010 £000
Loss for the year	(996)	(591)
Other comprehensive income:		
Currency translation differences	–	–
Total comprehensive income for the year	(996)	(591)
Total comprehensive income attributable to:		
Owners of the Company	(996)	(591)

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Share capital £000	Share premium £000	Translation reserves £000	Retained losses £000	Total £000
As at 1 January 2010	**1,550**	**6,842**	**12**	**(5,318)**	**3,086**
Loss after tax for the year	–	–	–	(591)	(591)
As at 31 December 2010	**1,550**	**6,842**	**12**	**(5,909)**	**2,495**
Shares issued	400	1,669	–	–	2,069
Share issue costs	–	(110)	–	–	(110)
Loss after tax for the year	–	–	–	(996)	(996)
As at 31 December 2011	**1,950**	**8,401**	**12**	**(6,905)**	**3,458**

Share capital is the amount subscribed for shares at nominal value.

Retained loss represents the cumulative losses of the Group attributable to owners of the Company.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of those shares net of share issue expenses. Share issue expenses in the year comprise costs incurred in respect of the issue of new shares on the London Stock Exchange's AIM market.

Translation reserves occurs on consolidation of the translation of the subsidiary's balance sheet at the closing rate of exchange and its income statement at the average rate.

Company statement of changes in equity

for the year ended 31 December 2011

	Share capital £000	Share premium £000	Retained losses £000	Total £000
As at 1 January 2010	**1,550**	**6,842**	**(4,999)**	**3,393**
Loss after tax for the year	–	–	(898)	(898)
As at 31 December 2010	**1,550**	**6,842**	**(5,897)**	**2,495**
Shares issued	400	1,669	–	2,069
Share issue costs	–	(110)	–	(110)
Loss after tax for the year	–	–	(285)	(285)
As at 31 December 2011	**1,950**	**8,401**	**(6,182)**	**4,169**

Share capital is the amount subscribed for shares at nominal value.

Retained loss represents the cumulative losses of the Company attributable to owners of the Company.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of those shares net of share issue expenses. Share issue expenses in the year comprise costs incurred in respect of the issue of new shares.

Consolidated statement of financial position

31 December 2011

	Notes	2011 £000	2010 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	9	–	–
Other Intangibles	10	1,211	1,211
Property, plant and equipment			
– oil and gas assets	11	220	261
– others	11	–	–
		1,441	1,472
CURRENT ASSETS			
Trade and other receivables	13	974	794
Deposits and prepayments		11	–
Cash and cash equivalents	14	1,457	720
		2,442	1,514
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	57	176
Financial liabilities – borrowings	16	–	–
		57	176
NET CURRENT ASSETS		2,385	1,338
NON-CURRENT LIABILITIES			
Financial liabilities – borrowings	16	368	315
NET ASSETS		3,458	2,495
EQUITY AND RESERVES			
Called up share capital	17	1,950	1,550
Share premium	18	8,401	6,842
Translation reserves	18	12	12
Retained losses	18	(6,905)	(5,909)
		3,458	2,495

The financial statements were approved and authorised for issue by the Board of Directors on 29 May 2012 and were signed on its behalf by:

M B Lofgran
Director

Company registered number: 05338258

Company statement of financial position

31 December 2011

	Notes	2011 £000	2010 £000
ASSETS			
NON-CURRENT ASSETS			
Fixed asset investments	12	3,951	2,035
		3,951	2,035
CURRENT ASSETS			
Trade and other receivables	13	49	64
Cash and cash equivalents	14	193	541
		242	605
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	24	146
Financial liabilities – borrowings	16	–	–
		24	146
NET CURRENT ASSETS		218	459
NET ASSETS		4,169	2,494
EQUITY AND RESERVES			
Called up share capital	17	1,950	1,550
Share premium	18	8,401	6,842
Retained losses	18	(6,182)	(5,898)
		4,169	2,494

The financial statements were approved and authorised for issue by the Board of Directors on 29 May 2012 and were signed on its behalf by:

M B Lofgran
Director

Company registered number: 05338258

Consolidated statement of cash flows

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Cash flows from operating activities			
Cash (consumed) by operations	1	(1,223)	(446)
Net cash (consumed) by operating activities		(1,223)	(446)
Cash flows from investing activities			
Purchase of intangibles – new oil and gas properties		(8)	(460)
Purchase of plant and equipment		9	(269)
Net cash from investing activities		1	(729)
Cash flows from financing activities			
Issue of new shares		1,959	–
Net cash from financing activities		1,959	–
Increase/(decrease) in cash and cash equivalents		737	(1,175)
Cash and cash equivalents at beginning of year	14	720	1,895
Cash and cash equivalents at end of year		**1,457**	**720**
Represented by:			
Cash at bank	14	1,457	720

Note to the consolidated statement of cash flows

for the year ended 31 December 2011

1. RECONCILIATION OF LOSS BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	2011 £000	2010 £000
Loss before tax for the year	(996)	(591)
Depreciation of property, plant and equipment	34	12
Amortisation of intangibles	2	–
Foreign exchange loss/(gains) non-cash items	47	(42)
Operating cash flows before movements in working capital	(913)	(621)
Decrease in receivables	(180)	291
(Decrease) in payables	(119)	(116)
(Increase) in deposits and prepayments	(11)	–
Cash (consumed) by continuing operations	(1,223)	(446)

Company statement of cash flows

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Cash (consumed) by operations	1	(391)	(306)
Net cash from operating activities		(391)	(306)
Cash flows from investing activities			
Interest received		–	–
Net cash from investing activities		–	–
Cash flows from financing activities			
Inter group loan (advances)		(1,916)	(1,044)
Issue of new shares		1,959	–
Net cash from financing activities		43	(1,044)
Increase/(decrease) in cash and cash equivalents		(348)	(1,350)
Cash and cash equivalents at beginning of year	14	541	1,891
Cash and cash equivalents at end of year		193	541
Represented by:			
Cash at bank	14	193	541

Note to the company statement of cash flow

for the year ended 31 December 2011

1. RECONCILATION OF LOSS BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	2011 £000	2010 £000
Loss before tax for the year	(284)	(899)
Impairment of cost of investments	–	560
Operating cash flows before movements in working capital	(284)	(339)
(Increase)/decrease in receivables	15	(55)
Increase/(decrease) in payables	(122)	88
Cash (consumed) by continuing operations	(391)	(306)

Notes to the financial statements

for the year ended 31 December 2011

GENERAL INFORMATION

Nostra Terra Oil and Gas Company plc is a company incorporated in England and Wales and quoted on the AIM market of the London Stock Exchange. The address of the registered office is disclosed on the company information page of this annual report. The principal activity of the Group is described in the directors' report.

1. ACCOUNTING POLICIES

Going concern

The financial statements have been prepared on the assumption that the Group is a going concern. When assessing the foreseeable future, the directors have looked at a period of 12 months from the date of approval of this report.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's Report and Directors' Report. In addition, note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current cash resources. In addition, the Group has entered into a £5 million financing agreement (expandable to £10 million) and US$1 million promissory note (expandable to US$3 million) with Yorkville Advisors.

After making enquiries, the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued by the International Accounting Standards Board (IASB) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

New and amended standards adopted by the Company

The company has adopted the following new and amended IFRSs as of 1 January 2011:

- IAS 32 (amendment), 'Financial instruments: presentation – classification of rights issue', is effective from annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the company after initial application.
- IAS 24 (amendment), 'Related party transactions'. The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The company does not expect any impact on its financial position or performance.
- IFRIC 14 (amendment), 'Prepayments of a minimum funding requirement'. The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the company.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. Where this cannot be reliably measured, the instrument is measured at the fair value of the liability extinguished. Any gain or loss is recognised in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the company.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

- IFRS 9, 'Financial instruments: classification and measurement', as issued reflects the first phase of the IASB work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 might have an effect on the classification and measurement of the company's assets. At this juncture it is difficult for the company to comprehend the impact on its financial position and performance.
- IFRS 7, 'Financial instruments: disclosures (amendment)', is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them and where financial assets are not derecognised in their entirety. In addition to the above there has been a subsequent amendment effective for annual periods beginning on or after 1 January 2013 related to the offsetting of financial assets and financial liabilities. The adoption of these will have no effect on the financial statements of the company.
- IAS 12, 'Income taxes (amendment) – deferred taxes: recovery of underlying assets', is effective for annual periods beginning on or after 1 January 2012. It introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will derecognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed a use basis would need to be adopted. The amendments also introduce the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. The adoption of this interpretation will have no effect on the financial statements of the company.
- IFRS 11 'Joint arrangements' is effective from 1 January 2013. The core principle of the standard is that a party to a joint arrangement determines the type of joint arrangements in which it is involved by assessing the rights and obligations, and accounts for those rights and obligations in accordance with the type of joint arrangement. Joint ventures now must be accounted for using the equity method. Joint operator which is a newly defined term recognises its assets, liabilities, revenues and expenses and relative shares thereof. The adoption of this will have no effect on the financial statements of the company.
- IFRS 12 'Disclosures of interests with other entities' is effective from 1 January 2013. It requires increased disclosure about the nature, risks and financial effects of an entity's relationship with other entities along with its involvement with other entities. The adoption of this will have no effect on the financial statements of the company.
- IFRS 13 'Fair value measurement' is effective from 1 January 2013. It defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. It includes a three-level fair value hierarchy which prioritises the inputs in a fair value measurement. The adoption of this will have no effect on the financial statements of the company.
- IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements', IFRS 12 'Disclosures of interests with other entities' along with related amendments to IAS 27 'Separate financial statements' and IAS 28 'Investments in associates and joint ventures' will have an effective date of 1 January 2013. Early adoption of these standards is permitted, but only if all five are early adopted together. IFRS 10 does not change consolidation procedures but changes whether an entity is consolidated by revising the definition of control and provides a number of clarifications on applying the new definition of control. The adoption of this will have no effect on the financial statements of the company.

1. ACCOUNTING POLICIES continued

- IFRS 1, 'First-time adoption of International Financial Reporting Standards (amendment) – severe hyperinflation and removal of fixed dates for first-time adopters', has an effective date for annual periods beginning on or after 1 July 2011. This provides further guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. Early adoption of these standards is permitted. The adoption of this will have no effect on the financial statements of the company.
- IAS 1, 'Presentation of items of other comprehensive income – amendments to IAS 1', is effective for annual periods beginning on or after 1 July 2012. Items that would be reclassified to the profit and loss at a future point would be presented separately from items that will never be capitalised. The adoption of this will have no effect on the financial statements of the company.
- IAS 19, 'Employee benefits (revised)', is effective for annual periods beginning on or after 1 January 2013. For defined benefit plans the ability to defer recognition of actuarial gains and losses has been removed. There are new objectives for disclosure stated in the revised standard along with new or revised disclosure requirements. Plus the recognition of termination benefits and the distinction of short-term and other long-term employee benefits have changed. The adoption of this will have no effect on the financial statements of the company.
- IFRIC 20, 'Stripping costs in the production phase of a surface mine', is effective for annual periods beginning on or after 1 January 2013. The interpretation only applies to stripping costs incurred during the production phase of a surface mine (production stripping costs). These costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset". Where costs cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, the Interpretation requires an entity to use an allocation basis that is based on a relevant production measure. The adoption of this will have no effect on the financial statements of the company.

Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

An associate undertaking ("associate") is an enterprise over whose financial and operating policies the Group has the power to exercise significant influence and which is neither a subsidiary nor a joint venture of the Group. The equity method of accounting for associates is adopted in the Group financial statements, such that they include the Group's share of operating profit or loss, exceptional items, interest, taxation and net assets of associates ("the equity method").

In applying the equity method, account is taken of the Group's share of accumulated retained earnings and movements in reserves from the effective date on which an enterprise becomes an associate and up to the effective date of disposal. The share of associated retained earnings and reserves is generally determined from the associate's latest interim or final financial statements. Where the Group's share of losses of an associate exceeds the carrying amount of the associate, the associate is carried at nil. Additional losses are only recognised to the extent that the Group has incurred obligations or made payments outside the course of ordinary business on behalf of the associate.

Joint Activity Agreement

The Group's interest in the Joint Activity Agreement ("JAA") (see note 10) is accounted for by proportionate consolidation. The Group combines its share of the JAA's individual income and expenses, assets and liabilities and cash flows on a line by line basis with similar items in the Group's financial statements. The Group recognises the portion of gains and losses on the sale of assets by the Group to JAA that is attributable to the other ventures. The Group does not recognise its share of profits or losses from JAA that result from the Group's purchase of assets from JAA until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Property, plant and equipment

Tangible non-current assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred. Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Plant and machinery – 20% on cost

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable value.

1. ACCOUNTING POLICIES continued

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses) or gains in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of hydrocarbons and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised when the oil and gas produced is despatched and received by the customers.

Functional currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is mainly United States Dollars (US$). The financial statements are presented in Pounds Sterling (£), which is the Group's presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into the presentational currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

iii) Group companies

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differed from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Operating leases

Rental leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the year of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

1. ACCOUNTING POLICIES continued

Fair values

The carrying amounts of the financial assets and liabilities such as cash and cash equivalents, receivables and payables of the Group at the balance sheet date approximated their fair values, due to the relatively short-term nature of these financial instruments.

The Company provides financial guarantees to licensed banks for credit facilities extended to a subsidiary company. The fair value of such financial guarantees is not expected to be significantly different as the probability of the subsidiary company defaulting on the credit lines is remote.

Share-based compensation

The fair value of the employee and suppliers services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting year is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Oil and gas assets

The Group applies the successful efforts method of accounting for oil and gas assets and has adopted IFRS 6 Exploration for and evaluation of mineral resources.

Exploration and evaluation (“E&E”) assets

Under the successful efforts method of accounting, all licence acquisition, exploration and appraisal costs are initially capitalised in well, field or specific exploration cost centres as appropriate, pending determination. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

Pre-licence costs

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the income statement as they are incurred.

Exploration and evaluation (“E&E”) costs

Costs of E&E are initially capitalised as E&E assets. Payments to acquire the legal right to explore, together with the directly related costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as intangible E&E assets.

Tangible assets used in E&E activities (such as the Group's drilling rigs, seismic equipment and other property, plant and equipment used by the Company's exploration function) are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of property, plant and equipment utilised in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

E&E costs are not amortised prior to the conclusion of appraisal activities.

Treatment of E&E assets at conclusion of appraisal activities

Intangible E&E assets relating to each exploration licence/prospect are carried forward until the existence (or otherwise) of commercial reserves has been determined, subject to certain limitations including review for indications of impairment. If commercial reserves are discovered the carrying value, after any impairment loss of the relevant E&E assets, is then reclassified as development and production assets. If, however, commercial reserves are not found, the capitalised costs are charged to expense after conclusion of appraisal activities.

Development and production assets

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined above.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads and the cost of recognising provisions for future restoration and decommissioning.

Depletion, amortisation and impairment of oil and gas assets

All expenditure carried within each field is amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, on a field-by-field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs to access the related commercial reserves. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Where there has been a change in economic conditions that indicates a possible impairment in an oil and gas asset, the recoverability of the net book value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs. Any impairment identified is charged to the income statement as additional depletion and amortisation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation that would have been charged since the impairment.

Commercial reserves

Commercial reserves are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

1. ACCOUNTING POLICIES continued

Critical accounting estimates and judgments

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

a) Impairment of investments

Costs of investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates for each cash generating unit.

b) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.

c) Recoverability of exploration and evaluation costs

E&E assets are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgment as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to the asset in question, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value.

d) Share-based payments

Note 1 sets out the Group's accounting policy on share-based payments, specifically in relation to the share options and warrants that the Company has granted. The key assumptions underlying the fair value of such share-based payments are discussed in note 22. The fair value amounts used by the Group have been derived by external consultants using standard recognised valuation techniques.

2. SEGMENTAL ANALYSIS

In the opinion of the directors, the Group has one class of business, being the exploitation of hydrocarbon resources.

The Group's primary reporting format is determined by geographical segment according to the location of the hydrocarbon assets. The Group's reportable segments under IFRS 8 in the year are as follows:

United Kingdom being the head office.

Ukraine: a 25 per cent profit share in the onshore Oktyabrskoe oil field.

US Mid-Continent properties at year end included the following:

(i) Kansas: 100% working interest in the Bloom property located within the Chase-Silica Field;

(ii) Texas: 1% working interest in the Vintage Hills Prospect Unit located within the Giddings Field; 3% working interest in the Nesbitt Prospect Unit located within the Woodlawn Field;

(iii) Colorado: 16.25% working interest in the Verde Prospect Unit;

(iv) Oklahoma: 30% working interest in the Bale Creek Prospect Unit.

The chief operating decision maker's internal report is based on the location of the oil properties as disclosed below.

	US mid-continent 2011 £000	Ukraine 2011 £000	Head office 2011 £000	Total 2011 £000
Segment results – 2011				
Revenue				
Total	244	–	–	244
Inter company	–	–	–	–
Revenue	244	–	–	244
Operating loss before depreciation, amortisation share-based payment charges and restructuring costs:	(1,012)	–	–	(1,012)
Depreciation of tangibles	(34)	–	–	(34)
Amortisation of intangibles	(2)	–	–	(2)
Operating loss	(1,048)	–	–	(1,048)
Realised exchange loss	–	–	(11)	(11)
Finance income	63	–	–	–
Loss before taxation	(985)	–	(11)	(996)
Segment assets				
Property, plant and equipment	220	–	–	220
Intangible assets	1,221	–	–	1,221
Cash and cash equivalents	1,457	–	–	1,457
Other assets	985	–	–	985
	3,883	–	–	3,883

Notes to the financial statements

for the year ended 31 December 2011

2. SEGMENTAL ANALYSIS continued

	US mid-continent 2010 £000	Ukraine 2010 £000	Head office 2010 £000	Total 2010 £000
Segment results – 2010				
Revenue				
Total	133	–	4	137
Inter company	–	–	–	–
Revenue	133	–	4	137
Operating loss before depreciation, amortisation share-based payment charges and restructuring costs:	(712)	–	(8)	(720)
Depreciation of tangibles	(8)	–	–	(8)
Amortisation of intangibles	–	–	–	–
Operating loss	(587)	–	–	(591)
Realised exchange loss	–	–	(4)	(4)
Finance income	–	–	–	–
Loss before taxation	(587)	–	(4)	(591)
Segment assets				
Property, plant and equipment	261	–	–	261
Intangible assets	1,211	–	–	1,211
Cash and cash equivalents	720	–	–	720
Other assets	61	–	7	68
	2,253	–	7	2,260

3. EMPLOYEES AND DIRECTORS

	2011 £000	2010 £000
Directors' fees	220	219
Social security costs	11	9
	231	228

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

	2011 Number	2010 Number
Directors	4	4
	4	4

Directors' remuneration

Other than the directors, the Group had no other employees. Total remuneration paid to directors during the year was as follows:

	2011 £000	2010 £000
Directors' fees	220	219

The highest paid director's emoluments and other benefits for the year ended 31 December 2011 are as listed below:

	Salary £000
M B Lofgran	97

4. FINANCE INCOME

	2011 £000	2010 £000
On bank balance	2	–
On other receivables	61	–
	63	–

5. OPERATING LOSS FOR THE YEAR

The operating loss for the year is stated after charging/(crediting):

	2011 £000	2010 £000
Auditors' remuneration (Company £18,300 – 2010: £18,545)	18	19
Depreciation of property, plant and equipment	34	8
Amortisation of intangibles	2	–
Loss on disposal of fixed assets	(1)	4
Foreign exchange differences	11	(3)

The analysis of administrative expenses in the consolidated income statement by nature of expense:

	2011 £000	2010 £000
Employment costs	11	9
Directors' fees	220	219
Consultancy fees	14	43
Travelling and entertaining	47	53
Legal and professional fees	301	87
Establishment costs	–	–
Foreign exchange differences	11	(3)
Amount due from participating interest written off	–	(37)
Other expenses	330	101
	934	472

6. INCOME TAX EXPENSE

The tax charge on the loss for the year was as follows:

	2011 £000	2010 £000
Current tax:		
Corporation tax	–	–
Overseas corporation tax/(recovery)	–	–
Total	–	–

	2011 £000	2010 £000
Loss before tax	(996)	(591)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 26% (2010: 28%)	(259)	(166)
Effects of:		
Non-deductible expenses	9	3
Other tax adjustments	250	163
Foreign tax	–	–
	259	166
Current tax charge	–	–

At 31 December 2011 the Group had excess management expenses to carry forward of £849,069 (2010: £565,333) and trading losses of £917,630 (2010: £242,409). The deferred tax asset at 26% (2010: 28%) on these tax losses of £459,342 (2010: £226,167) has not been recognised due to the uncertainty of recovery.

7. LOSS OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £284,475 (2010: £898,477).

8. EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group had two classes of dilutive potential ordinary shares, being those share options granted to employees and suppliers where the exercise price is less than the average market price of the Group's ordinary shares during the year, and in 2009 Convertible Loans.

Details of the adjusted earnings per share are set out below:

	2011	2010
EPS – loss		
Loss attributable to ordinary shareholders (£000)	(996)	(591)
Weighted average number of shares	1,777,379,579	1,549,600,913
Weighted average number of shares on diluted basis	2,045,555,418	1,829,943,089
Continued operations:		
Basic and diluted EPS – loss (pence)	**(0.056)**	**(0.038)**

The diluted loss per share is the same as the basic loss per share as the loss for the year has an antidilutive effect.

9. GOODWILL

Group	**£000**
COST	
At 1 January 2010	4,211
Additions	–
At 31 December 2010	4,211
Additions	–
At 31 December 2011	4,211
PROVISION	
At 1 January 2010	943
Charge for the year	3,268
At 31 December 2010	4,211
Charge for the year	–
At 31 December 2011	4,211
CARRYING VALUE	
At 31 December 2011	–
At 31 December 2010	–

Goodwill arose on the acquisition of Nostra Terra (Overseas) Limited in 2007 and was fully impaired in 2009.

10. OTHER INTANGIBLES

Group

	Licence £000	Exploration and evaluation assets £000	Total £000
COST			
At 1 January 2010	621	1,695	2,316
Transfer to other receivables	–	(1,055)	(1,055)
Additions	5	455	460
Disposals	–	(510)	(510)
At 31 December 2010	626	585	1,211
Additions	–	796	796
Expensed in the year	–	(140)	(140)
Disposals	(409)	(246)	(655)
Currency gain	6	6	12
At 31 December 2011	223	1,001	1,224
PROVISION			
At 1 January 2010	–	(510)	(510)
Disposals	–	510	510
At 31 December 2010	–	–	–
Charge for the year	–	(3)	(3)
At 31 December 2011	–	(3)	(3)
CARRYING VALUE			
At 31 December 2011	223	998	1,221
At 31 December 2010	626	585	1,211

The assets expensed in the year relate to the plugging and abandonment of 2 wells in the Bloom Field.

10. OTHER INTANGIBLES continued

The Group assesses at each reporting date whether there is an indication that the intangible assets may be impaired, by considering the net present value of discounted cash flows forecasts. If an indication exists an impairment review is carried out. At the year end, the directors are of the opinion that there has been no impairment in value.

On 13 April 2011, the company entered into an agreement with Hewitt Petroleum, Inc. (now Richfield Oil & Gas Company) and Hewitt Energy Group, Inc. (together the "HPI Entities").

The principal terms of the agreement, which on closing led to termination of the operational relationship between the Company and the HPI Entities, were as follows:

Nostra Terra acquired 100% working interest (WI) in, and assumed operatorship of, the producing Bloom property;

Nostra Terra's existing 75% WI before payout (50% WI after payout) in the Boxberger property, where operations remain suspended pending the resolution of title issues, was assigned to the HPI Entities;

Nostra Terra assigned to the HPI Entities its interests in all other HPI-operated assets (including Hoffman, the undeveloped adjoining acreage within the Trapp field and the Koelsch property) and the Liberty #1 exploration well;

Nostra Terra received a US$1.3 million note to be secured by other assets of the HPI Entities (the "HPI Note"). The HPI Note was extended by a month, matured on 31 January 2012 and accrues interest at 10% per annum. An early settlement discount of 3% per 30 day period prior to the maturity date is available to the HPI Entities;

In the expectation that HPI's successor, Richfield Oil & Gas Company ("Richfield") will become publicly traded prior to the expiration of the HPI Note, Nostra Terra has the right, but not the obligation, to convert the principal amount outstanding under the HPI Note into shares of Richfield at US$0.25 per share; and

Richfield has issued Nostra Terra a Warrant, exercisable in whole or in part, to subscribe for up to 6 million shares of Richfield common stock with an aggregate exercise price of US$1.5 million, at a strike price of US$0.25 per share, expiring one year after admission to trading on the Toronto Stock Exchange or the TSX Venture Exchange. The warrant will be transferable, subject to the provisions of the US Securities Act 1933 (as amended).

However, as no funds were received by the maturity date, the Company began the process of recovering against the collateral which consists of producing leases in Kansas and non-producing leases in Utah.

On 18 February 2010, the Group via its wholly-owned subsidiary, Nostra Terra Overseas Ltd ("NTOL"), entered into a contract with Crimea Nadra Invest (CNI) relating to its assets in Ukraine.

Under the terms of the contract, CNI acquired all the rights and obligations associated with the Joint Activity Agreement of 27 January 2001 (the "JAA") covering NTOL's operations in Ukraine and in particular the Oktyabrskoe field licence, while NTOL retains a right to payment of 25 per cent of any net profits generated by CNI from the JAA, which runs for a period of 25 years from 27 January 2001. The consideration for the transaction is to be settled by the deferred payment from future oil sale proceeds of 360,000 Ukraine hryvnia (approximately £29,000), which will be applied towards general working capital.

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant & equipment – oil and gas assets £000	Plant & equipment – other assets £000	Total £000
COST			
At 1 January 2010	271	5	276
Disposals	(271)	(5)	(276)
Additions	269	–	269
At 31 December 2010	269	–	269
Dispositions	(40)	–	(40)
Additions	36	–	36
At 31 December 2011	265	–	265
PROVISION			
At 1 January 2010	271	1	272
Dispositions	(271)	(1)	(272)
Charge for the year	11	–	11
At 31 December 2010	11	–	11
Dispositions	–	–	–
Charge for the year	34	–	34
At 31 December 2011	45	–	45
CARRYING VALUE			
At 31 December 2011	220	–	220
At 31 December 2010	261	–	261

12. FIXED ASSET INVESTMENTS

Company

	Investment in subsidiary £000	Loan to subsidiaries £000	Total £000
COST			
At 1 January 2010	4,409	1,984	6,393
Additions	–	1,044	1,044
At 31 December 2010	4,409	3,028	7,437
Additions	–	1,916	1,916
At 31 December 2011	4,409	4,944	9,353
PROVISION			
At 1 January 2010	4,409	433	4,842
Charge for the year	–	560	560
At 31 December 2010	4,409	993	5,402
Charge for the year	–	–	–
At 31 December 2011	4,409	993	5,402
CARRYING VALUE			
At 31 December 2011	–	3,951	3,951
At 31 December 2010	–	2,035	2,035

In the opinion of the directors, the aggregate value of the Company's investment in subsidiary undertakings is not less than the amount included in the balance sheet. See note 9 for details on impairment.

The details of the subsidiaries are as set out below:

	Shareholding	Country of incorporation	Nature of business
Nostra Terra (Overseas) Limited ("NTOL")	100%	Cyprus	Oil and gas exploration in Ukraine (Dormant)
New Horizon Energy 1 LLC ("NHE")	100%	USA	Oil and gas exploration in USA
Goldhawk Oil & Gas, LLC ("Goldhawk")	100%	USA	Oil and gas exploration in USA
Churchill Operating, LLC ("Churchill")	100%	USA	Oil and gas exploration in USA

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	2011	2010
	£000	£000	£000	£000
Current:				
Other receivables	943	785	21	58
Other taxes receivables	31	9	28	6
	974	794	49	64

Other receivables include £902,000 due from Richfield. See note 10.

The directors consider that the carrying amount of other receivables approximates their fair value.

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	2011	2010
	£000	£000	£000	£000
Bank current accounts	1,457	720	193	541

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2011	2010	2011	2010
	£000	£000	£000	£000
Current:				
Trade payables	20	29	–	–
Accruals and deferred income	37	147	24	146
Other payables	–	–	–	–
	57	176	24	146

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing expenses.

The directors consider that the carrying amount of trade and other payables approximates their fair value.

16. FINANCIAL LIABILITIES – BORROWINGS

Maturity of the borrowings is as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	£000	**£000**	**£000**	**£000**
Repayable between one and five years:				
Loan notes	368	315	–	–
	368	315	–	–

On 25 May 2007, the Company issued pursuant to the Share Purchase Agreement a promissory note in the sum of US$1,838,928 to be issued to the Vendors of Nostra Terra (Overseas) Limited.

The Company will be obliged to repay the sums due under the terms of the promissory note relating to the Ukraine properties quarterly in arrears, based on the Group's cash flow from all of its wells which have been producing for at least 30 days for the most recently completed quarter. No repayments shall be made until the net income from such wells exceeds US$225,000 for the relevant quarter.

However, on 24 December 2009, the Company agreed with its wholly owned subsidiary, Nostra Terra (Overseas) Limited ("NTOL"), and Nikea Nominees Limited and Nikea Trustees Limited (together "Nikea") to an assignment and variation of the promissory note dated 25 May 2007 in the sum of US$1,838,928, whereby the amount due from the Company to Nikea is reduced by 75% to US$459,732 (the "Nikea Sum") and the obligation to repay the Nikea Sum is assigned to NTOL. In addition, interest will no longer be payable on the Nikea Sum, and the Nikea Sum will be due for repayment on or before 30 November 2012 with no contingency based on the cash flow from the Company's wells. A provision allowing the parties to assign the promissory note has also been inserted.

On 25 June 2007, the Company issued £327,679.38 of zero coupon Creditors Convertible Loan Stock 2009 to the Nostra Terra (Overseas) Limited Vendors. The principal amount of the Creditors Convertible Loan Stock is convertible at the rate of one ordinary share for each 2p of the principal amount of the stock in the period to 25 June 2009. The stock was to be repaid on or before 31 December 2009. The Company would have been able to give notice at any time to convert any stock at 120% of its nominal value.

On 25 June 2007, the Company issued £88,483 of zero coupon Creditors Non-convertible Loan Stock 2009, to be issued to the Vendor under the Acquisition Agreement. The Redeemable Loan Stock may be redeemed at any time by the Company and was repayable on or before 31 December 2009.

On 30 June 2009, the Company reached agreement with all holders of outstanding loan notes issued in 2007 whereby the outstanding £252,951 (together with an additional £4,000 owing to one of the loan note holders) is settled by the payment of £35,131 in cash and the issue of 110,910,200 new ordinary shares at an effective issue price of 0.2 pence per ordinary share.

Loan notes issued by Nostra Terra (Overseas) Limited

On 25 May 2007, a promissory note was issued to Nikea and Masterworks (Overseas) Limited ("Masterworks") in the sum of US$436,460, which bears interest at 4.9% per annum.

Repayment of the sums due under the terms of this promissory note is to be quarterly in arrears based on cash flow from the group's wells which have been producing for at least 30 days for the most recently completed quarter. No repayments shall be made until the net income from such wells exceeds US$225,000 for the relevant quarter.

On 24 December 2009, NTOL agreed with Nikea and Masterworks to a variation of the promissory note dated 25 May 2007 as partially assigned by deed of assignment dated 14 November 2007 in the total sum of US$436,460, whereby the amount due from NTOL to Nikea is reduced from US$194,161 by 75% to US$48,540 and the amount due from NTOL to Masterworks is reduced from US$242,299 by 75% to US$60,575 (together the "Nikea/Masterworks Sum"). In addition, interest will no longer be payable on the Nikea/Masterworks Sum and the Nikea/Masterworks Sum will be due for repayment on or before 30 November 2012 with no contingency based on the cash flow from the Company's wells.

On 10 May 2006, a promissory note in the sum of US$159,744.50 was issued to Ucoco Energy, Inc ("Ucoco"). On 24 December 2009, NTOL agreed with Ucoco to a variation of the promissory note dated 10 May 2006 as amended by deed of variation dated 25 May 2007 in the sum of US$159,745, whereby the amount due from NTOL to Ucoco is reduced by 75% to US$39,936 (the "Ucoco Sum"). In addition, interest will no longer be payable on the Ucoco Sum and the Ucoco Sum will be due for repayment on or before 30 November 2012 with no contingency based on the cash flow from the Group's wells.

On 8 October 2010, pursuant to a deed of cancellation executed between Ucoco and the Company's wholly-owned subsidiary Nostra Terra (Overseas) Limited ("NTOL"), a promissory note under which NTOL had agreed to pay the sum of US$39,936 to Ucoco has lapsed and been terminated in its entirety.

17. CALLED UP SHARE CAPITAL

Authorised:

Number:	Class:	Nominal value:	**2011 £000**	**2010 £000**
2,500 million (2010 – 2,500 million)	Ordinary	0.1p	2,500	2,500

Allotted, called up and fully paid:

Number:	Class:	Nominal value:	**2011 £000**	**20109 £000**
1,950,100,585/1,950,100,585	Ordinary	0.1p	1,950	1,550

18. RESERVES

Group	Translation reserve £000	Retained losses £000	Share premium £000	Total £000
At 1 January 2010	12	(5,318)	6,842	1,536
Loss for the year	–	(591)	–	(591)
At 31 December 2010	12	(5,909)	6,842	945
Shares issued in the year	–	–	1,669	1,669
Share issue cost	–	–	(110)	(110)
Loss for the year	–	(996)	–	(996)
At 31 December 2011	12	(6,905)	8,401	1,508

Company	Retained losses £000	Share premium £000	Total £000
At 1 January 2010	(4,999)	6,842	1,843
Loss for the year	(899)	–	(899)
At 31 December 2010	(5,898)	6,842	944
Shares issued in the year	–	1,669	1,669
Share issue cost	–	(110)	(110)
Loss for the year	(284)	–	(284)
At 31 December 2011	(6,182)	8,401	2,219

19. RISK AND SENSITIVITY ANALYSIS

The Group's activities expose it to a variety of financial risks: interest rate risk, liquidity risk, foreign currency risk, capital risk and credit risk. The Group's activities also expose it to non-financial risks: market, legal and environment risk. The Group's overall risk management programme focuses on unpredictability and seeks to minimise the potential adverse effects on the Group's financial performance. The Board, on a regular basis, reviews key risks and, where appropriate, actions are taken to mitigate the key risks identified.

Capital risk

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Market risk

The Group also faces risks in conducting operations in the US Mid-Continent, which include but are not limited to:

- Fluctuations in the global economy could disrupt the Group's ability to operate its business in the US Mid-Continent and could discourage foreign and local investment and spending, which could adversely affect its production.

Environmental risks

The Group faces environmental risks in conducting operations in the US Mid-Continent which include but are not limited to:

- If the Group is found not to be in compliance with applicable laws or regulations, it could be exposed to additional costs, which might hinder the Group's ability to operate its business.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Foreign currency risk

The Group does not have formal policies on interest rate risk or foreign currency risk.

The Group reports its results in Pounds Sterling. A significant share of the exploration and development costs and the local operating costs are in United States Dollars. Any change in the relative exchange rates between Pounds Sterling, and United States Dollars could positively or negatively affect the Group's results.

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Pounds Sterling. The Group maintains a natural hedge that minimises the foreign exchange exposure by matching foreign currency income with foreign currency costs.

The Group does not consider it necessary to enter into foreign exchange contracts in managing its foreign exchange risk resulting from cash flows from transactions denominated in foreign currency, given the nature of the business, for the time being.

The foreign exchange rate affecting the Group is as follows:

Group	**Income statement**		**Balance sheet**	
	2011	**2010**	**2011**	**2010**
	£	**£**	**£**	**£**
Ukraine Hryvnia (UAH)	0.0820	0.0815	0.0820	0.0815
United States Dollars (US$)	0.6470	0.6413	0.6470	0.6413

19. RISK AND SENSITIVITY ANALYSIS continued

Volatility of crude oil prices

A material part of the Group's revenue will be derived from the sale of oil that it expects to produce. A substantial or extended decline in prices for crude oil and refined products could adversely affect the Group's revenues, cash flows, profitability and ability to finance its planned capital expenditure. The movement of crude oil prices is shown below:

	2011	2010
Per barrel – US$	101.76	77.68
Per barrel – £	63.54	49.82

Liquidity risk

The Group expects to fund its exploration and development programme, as well as its administrative and operating expenses throughout 2011, principally using existing working capital and expected proceeds from the sale of future crude oil production. The Group had a bank balance of approximately £1,457,000 at 31 December 2011.

20. FINANCIAL COMMITMENTS

Operating lease commitments

There are no significant operating lease obligations at the year end.

Capital commitments

The Group had no material capital commitments at the year end.

21. RELATED PARTY TRANSACTIONS

Group

During the year, the Group advanced loans of £nil (2010: £6,875) and charged management fees of £nil (2010: £29,300) to JAA in Ukraine (see note 10). As at 31 December 2011, the outstanding loan balance due from JAA was £nil (2010: £nil).

Company

During the year, the Company advanced a loan of £nil (2010: £20,000) to NTOL. At the year end, the Company made a provision of £nil (2010: £433,000) against the outstanding loan balance due from NTOL. The net amount due to the Company from NTOL after provision at the year end was £6,825 (2010: £6,825).

During the year, the Company advanced a loan of £1,210,100 (2010: £1,044,000) and charged management fees of £13,734 (2010: £50,520) to NHE. At the year end, the Company made a provision of £nil (2010: £560,000) against the outstanding loan balance due from NHE. The net amount due to the Company from NHE after provision at the year end was £3,090,798 (2010: £2,440,698).

During the year, the Company advanced a loan of £705,912 (2010: £154,671) to Goldhawk. At the year end, the net amount due to the Company from Goldhawk was £860,584 (2010: £154,671).

The intercompany loans are unsecured and interest-free.

22. SHARE-BASED PAYMENTS

There is no charge for share-based payments as the amount is not material.

The details of options and warrants are as follows:

	2011		2010	
	Number of options and warrants	Weighted average exercise price	Number of options and warrants	Weighted average exercise price
		Pence		Pence
Outstanding at the beginning of the year	329,009,173	0.17	329,009,173	0.17
Granted – 18 January 2011	3,000,000	0.37	–	–
Granted – 1 July 2011	3,333,333	0.60	–	–
Exercised – 30 June 2009	(67,166,667)	0.10	–	–
Balance carried forward	268,175,839		329,009,173	

The options and warrants outstanding at 31 December 2011 are as follows:

	Issue date	End date	Exercise price	No of warrants
'C' Warrants				
Religare Capital Markets	25/06/2007	30/04/2012	2p	4,000,000
				4,000,000
Warrants				
M B Lofgran	30/06/2009	30/06/2012	0.1p	217,842,506
A B McCall	22/06/2010	21/06/2015	0.52p	10,000,000
A B McCall	22/06/2010	21/06/2015	0.75p	10,000,000
A B McCall	22/06/2010	31/12/2015	0.75p	20,000,000
S V Oakes	17/01/2011	14/01/2014	0.37p	3,000,000
Alexander David Securities Ltd	01/07/2011	01/07/2014	0.60p	6,000,000
				264,175,839
				268,175,839

The fair values of the options granted have been calculated using the Black-Scholes model assuming the inputs shown below:

	1 July 2011	17 January 2011	22 June 2010	30 June 2009
Share price at grant date	0.68p	0.5p	0.47p	0.2p
Exercise price	0.6p	0.37p	0.52p	0.1p
Option life in years	3 years	3 years	5 years	3 years
Risk free rate	4.3%	4.3%	3.5%	3.5%
Expected volatility	30%	30%	10%	10%
Expected dividend yield	0%	0%	0%	0%
Fair value of option	0.12p	0.23p	0p	0.09p

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23. CONTINGENT LIABILITIES AND GUARANTEES

The Group has no contingent liabilities in respect of legal claims arising from the ordinary course of business and it is not anticipated that any material liabilities will arise from contingent liabilities other than those provided for.

24. ULTIMATE CONTROLLING PARTY

The Company is quoted on the AIM market of the London Stock Exchange. At the date of the annual report there was no one controlling party.

25. EVENTS AFTER THE REPORTING PERIOD

On 3 January 2012, the Company entered into an agreement with Crown Energy Company Inc ("Crown") to acquire a 10% working interest in the Warrior Prospect, located in Oklahoma. The Warrior Prospect lies within a prolific oil system, proven to produce from multiple, stacked-pay reservoirs. Leasing, pooling and permitting of the initial well are already complete. Drilling of the initial horizontal well is anticipated to begin during the first half of 2012, along with construction of all production and transmission facilities. Up to five additional horizontal wells may be drilled on the prospect in the future and tie into the infrastructure that is being installed for the initial well. The development budget for the prospect, including current acreage (800 acres), cost to drill and complete the initial test well, and cost to drill and complete a salt water disposal well if required, is US$1,926,800, of which Nostra Terra's estimated portion is US$192,680.

On 6 January 2012, the Company announced that further to the revised agreement with Richfield which was announced on 14 April 2011, a 30-day extension to the repayment period of the US$1.3 million loan note had been granted to Richfield by the Company. As the loan had defaulted, the Company began the process of recovering against the collateral, which consists of producing leases in Kansas and non-producing leases in Utah.

On 25 January 2012, the Company granted 14,000,000 warrants to M B Lofgran, 14,000,000 warrants to A B McCall, 4,000,000 warrants to A M Blennerhassett and 6,000,000 warrants to S V Oakes exercisable on or before 25 January 2017 at a price of 0.41p.

On 11 May 2012, the Company entered into a loan facility of up to US$3 million (the "Loan Facility"), with YA Global Master SPV Ltd ("YA Global"), an investment fund managed by Yorkville Advisors LLC. The initial advance on the loan facility will be US$1 million ("Initial Advance") and the Company may request further advances of up to US$2 million, such advances to be at the discretion of YA Global. The Loan Facility is subject to interest at a rate of 10% per annum and is for a term of 360 days. The Loan Facility is supported by the Standby Equity Distribution Agreement ("SEDA") between Nostra Terra and YA Global announced on 7 September 2011. The Initial Advance together with the interest thereon will be repaid in 10 monthly instalments commencing in July 2012, with the repayment schedule to be adjusted in the event further advances are drawn down. The proceeds from the Initial Advance will be used to augment the Company's existing leasing programme, as well as providing additional capital for Nostra Terra's expanding portfolio.

Notes

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Nostra Terra

OIL & GAS COMPANY PLC