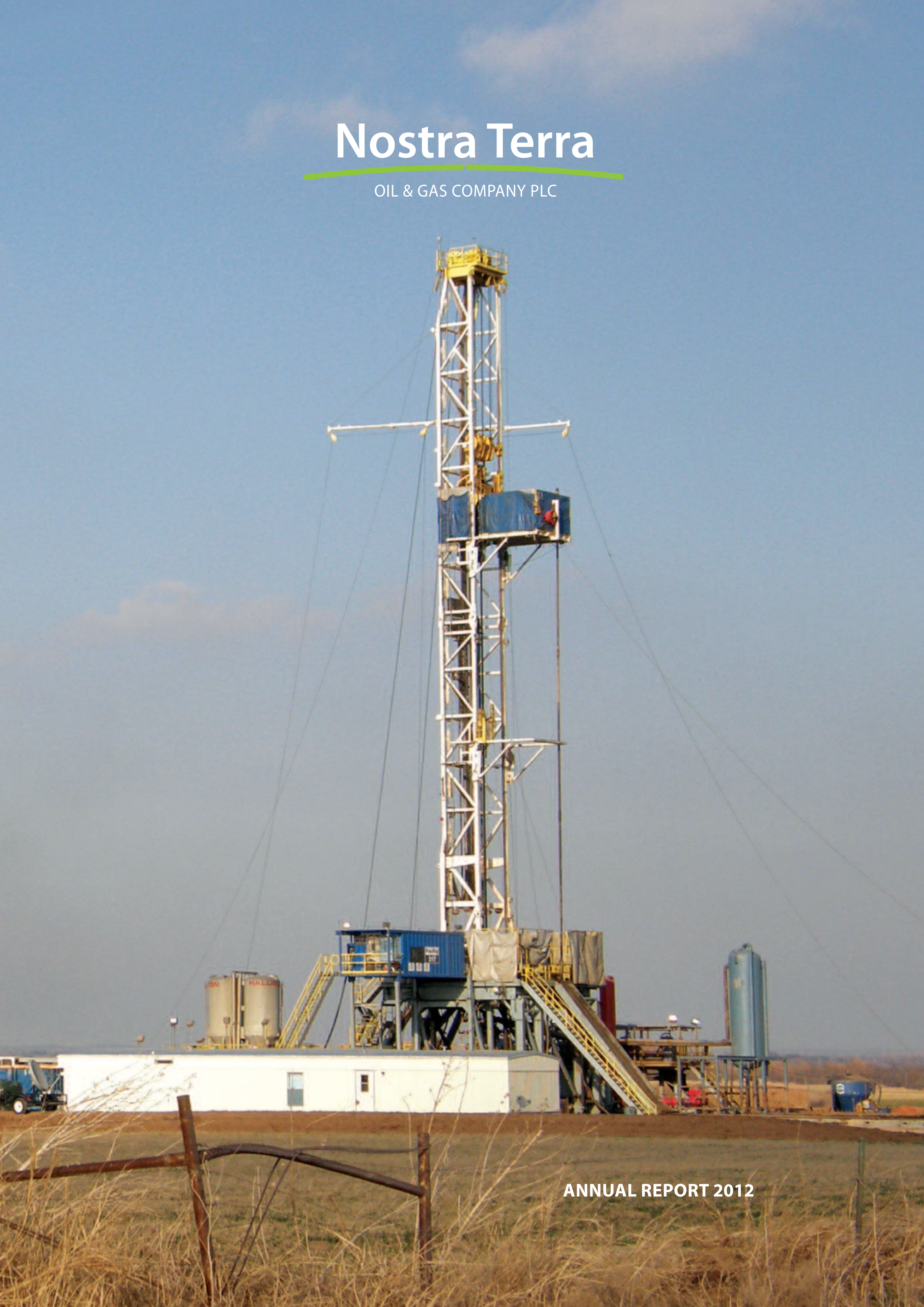
Nostra Terra

OIL & GAS COMPANY PLC



ANNUAL REPORT 2012

Contents

Highlights

- 11 producing wells over 8 prospects
- 44% increase in revenue to £352,000 (2011: £244,000)
- Gross profit of £90,000 (2011: loss of £126,000), reduced overall loss
- Acquired a 20% interest in the Chisholm Trail Prospect (Oklahoma), with varying interests in individual wells – first four wells all exceeding production expectations
- Acquired a 10% working interest in the Warrior Prospect (Oklahoma) and brought well into production
- Bale Creek (Oklahoma) brought into production
- Initial Verde well (Colorado) exceeded expectations and reached payout in nine months, with a second well undergoing completion at the year end
- Secured a new loan facility of up to US$3 million and raised more than £1 million through placings of new shares.

Post balance sheet highlights

- Surpassed breakeven at the operational level in January 2013
- Acquired a 20% working interest in the High Plains Prospect
- Acquired further acreage in the Chisholm Trail Prospect, giving exposure to 21 potential drilling locations
- Successfully concluded legal action against Richfield Oil & Gas, resulting in a judgement to recover in excess of US$1.5 million – initial $200,000 received
- Raised a further £0.5 million through standby equity distribution agreement.

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 2012. This was a successful year for Nostra Terra. We continued to implement our growth strategy, expanding both our asset base and our production.

Exploration & production highlights

A key development in 2012 was our acquisition of a 20% interest in the Chisholm Trail Prospect. The first four wells have all exceeded our expectations, contributing to greater revenues for Nostra Terra and helping us to pass breakeven on an operational basis in January 2013. A horizontal well in the Warrior Prospect began producing in the first half of the year and a well at the Bale Creek Prospect was producing oil and generating revenue by November. The initial Verde well has exceeded our expectations, reaching payout within nine months. In March 2013, we purchased a 5% working interest ("WI") in the High Plains Prospect in Texas, which we have since increased to 20%. High Plains gives us a higher-risk exploration opportunity, with large upside potential. We are now identifying potential drill targets and expect to have multiple prospect areas.

Financial highlights

Growth in production led to higher revenues, which increased from £244,000 in 2011 to £352,000 in 2012, a rise of 44%. We achieved a gross profit of £90,000, compared with a loss of £126,000 in the previous year. As the company grows we keep tight control of administrative expenses, which decreased by 6% to £876,000. This contributed to a reduced loss before tax of £840,000, against a loss of £996,000 in 2011.

I am pleased to report that as we moved into 2013 production increased significantly, enabling us to achieve break even on an operational basis. We were also successful with our litigation with Richfield leading to a judgment, enabling us to begin collection.

Summary

Nostra Terra made strong progress in 2012. We are encouraged by the start we have made to 2013 and believe we are well positioned to achieve further success. I would like to thank our executive directors, Matt Lofgran and Alden McCall, for their considerable achievements and their hard work, which includes significant analysis of the many opportunities they decided not to pursue. I also wish to thank Nostra Terra's shareholders for their continuing loyalty. We look forward to keeping you informed about our progress.

Sir Adrian Blennerhassett

Chairman

4 June 2013

Chief Executive's review

Nostra Terra is an exploration and production company, focused on finding and producing oil from conventional reservoirs. We accelerate production by applying modern technologies, including 3D seismic mapping, logging, precision horizontal and vertical drilling, and multi-stage well completions.

We target regions of low political and geological risk, specifically the United States mid-continent. Goldman Sachs has predicted that by 2017 the US will once again be the world's largest oil producer, generating 10.9m barrels a day. This is the result of highly sophisticated drilling technologies of the types we use, which are opening new fields. The states in which we operate – Oklahoma, Colorado, Kansas and Texas – are all achieving their highest daily productions in several decades because of the widespread application of these technologies.

Continuing our progress

A significant development in 2012 was our agreement with Ward Petroleum to acquire an interest in the Chisholm Trail Project, which we announced in August. This is our third multi-well drilling project in Oklahoma. We have a 20% interest in the overall play, with varying WIs in the individual wells, due to differences in the net acres leased in each well.

This play is a good example of how horizontal drilling and completion techniques can revive areas that were thought to be fully exploited. Ward has made rapid progress, with the first two wells entering production towards the end of 2012 and two further wells now in production. The fifth well, in which we have a 2.2% WI, has been completed and is currently in production testing. Our initial expectation was that each well would produce 200 barrels of oil equivalent per day ("BOEPD"). However, all of the first four wells have done considerably better than this and we expect that the fifth well will demonstrate similar results.

Well	Nostra Terra's working interest	Initial 10-day comparative production average (BOEPD)
Chisholm Trail 1	0.47%	258
Chisholm Trail 2	0.16%	555
Chisholm Trail 3	12.58%	348
Chisholm Trail 4	5.31%	505
Chisholm Trail 5	2.2%	Testing
Chisholm Trail 6	5.0%*	Elected

*Subject to final elections being concluded and finalisation of Working Interest percentage

An ongoing leasing program has also expanded the Prospect holdings. The acquisition of additional acreage means that Nostra Terra is now exposed to 21 potential drilling locations, including the five wells drilled so far.

We are excited by the Chisholm Trail Prospect's potential, a view supported by a recent, larger acquisition in the play by Gastar Exploration Limited (NYSE:GST), as well as other companies recently investing in the area. Our estimate is that these wells each need to produce 75,000 BOE to reach payback and we are encouraged by Gastar's announcement that it expects to recover several times this from its most recent wells. We believe Chisholm Trail is a low-risk, high-return play. A reserve report has now been commissioned and is anticipated shortly. Nostra Terra will then be able to put in place reserve-based lending, an attractive alternative to more dilutive forms of financing.

We also made progress with our two other prospects in Oklahoma, Bale Creek and Warrior. Nostra Terra owns a 30% WI in the Bale Creek Prospect, which is operated by Pathfinder Development Capital LLC. Bale Creek lies within a highly productive and extensively mapped trend, with multi-pay potential from as many as eight reservoirs. Following the acquisition of 3D seismic data, two wells were drilled at Bale Creek. The first well, which was horizontal, produced oil in swab testing but the pressure was unusually low. While drilling the second well, we and our partner saw the opportunity to test two stacked formations that were prominent anomalies in the 3D seismic interpretation, and decided to continue drilling the well vertically. In November, we announced positive results from prolonged testing of the second well, which was producing oil and generating revenue. Work on the first well has been discontinued, allowing us to focus our resources on future wells.

In January 2012, Nostra Terra agreed with Crown Energy Company Inc. to acquire a 10% WI in the Warrior Prospect. Like Bale Creek, Warrior lies within a prolific oil system in Oklahoma and contains multiple, stacked reservoirs. A horizontal well was drilled in the first half of the year and put into production.

Nostra Terra owns a 16.25% WI in the Verde Prospect Unit, which covers 636 acres in Colorado and is operated by Plainsmen Partners LLC. At the start of 2012, one vertical well was in operation and producing approximately 50 barrels of oil per day. This well has exceeded our expectations and reached payout within the first nine months of continuous production.

Since the end of the financial year, we have made another strategically important acquisition, with the purchase of an initial 5% WI in the High Plains Program in Texas. This strengthens our portfolio by giving us a higher-risk exploration opportunity, with the potential for large upside for our shareholders. Brown and Borelli is our highly experienced and respected operator-partner.

The area of mutual interest ("AMI") covers 66 contiguous square miles (42,000 acres) and is in a region where subsurface mapping, 3D seismic, vertical and horizontal drilling and completion technologies have achieved varying degrees of success. We aim to increase that success rate by applying a new "proof of concept" with Brown and Borelli.

The first step was to re-enter a previously drilled well, which we believed to have been mis-drilled. This re-entry confirmed that the original well had missed its target by a wide margin. As a result, the partnership are now reprocessing 35,000 acres of proprietary seismic data, integrating that with 42,000 acres of detailed subsurface mapping and identifying other potential drill targets. We expect to identify multiple prospect areas within the AMI, each of which could comprise up to 2,500 acres and have multiple drilling locations. The encouraging results so far have led us to increase our WI to 20%.

2012 net production

Our portfolio of interests has continued to expand and oil and gas production increased during 2012, as shown in the table below. As we move through 2013, it is pleasing that both of these trends have continued, enabling us to surpass break even at the operational level in January, a significant milestone in our development.

Prospect	State	NTOG operated	Working interest	Net production (BOE)	
				2011	2012
Bloom	Kansas	Yes	100%	4076	3192
Vintage Hills	Texas	No	1%	59	8
Nesbitt	Texas	No	3%	69	106
Verde	Colorado	No	16%	586	2088
Warrior	Oklahoma	No	10%	–	331
Bale Creek	Oklahoma	No	30%	–	331
Chisholm Trail	Oklahoma	No	varies	–	212
High Plains	Texas	No	20%	–	–

Improving financial performance

Growth in production led to higher revenues, which increased from £244,000 in 2011 to £352,000 in 2012, a rise of 44%. We achieved a gross profit of £90,000, compared with a loss of £126,000 in the previous year. As the company grows we keep tight control of administrative expenses, which decreased by 6% to £876,000. This contributed to a reduced loss before tax of £840,000, against a loss of £996,000 in 2011.

We have continued to put in place the financial resources we need to support our growth. In May 2012, we entered into a 360-day loan facility of up to US$3 million with YA Global Master SPV Ltd ("YA Global"), an investment fund managed by Yorkville Advisors LLC. The initial advance on the loan facility was US$1 million and we may request further advances of up to US$2 million. The facility attracts interest at 10% per annum.

In September, we successfully raised finance through two placings, allowing us to further fund the drilling campaign in Oklahoma. In total we raised £1,070,000 before expenses, by placing 297,222,223 new shares at 0.36 pence per share.

Since the year end, we have raised £502,750 under the SEDA by issuing 123,546,296 new shares at an average price of 0.407p per share. We have used the majority of the proceeds to acquire additional leases and expand the Chisholm Trail Prospect, along with developing further opportunities.

Also since the year end, Nostra Terra has reached a milestone in its legal proceedings against Richfield Oil & Gas Company (formerly Hewitt Energy Group, Inc.). On 14 April 2011, Richfield issued a US$1.3 million secured loan note to Nostra Terra, which accrued interest at 10% per annum and matured on 31 January 2012. At a hearing on 1 March 2013, Nostra Terra's motion for partial summary judgment went unopposed. We have received a judgement against Richfield in excess of US$1.5 million in principal and interest, plus an additional amount to be determined to cover the costs of collection. Collection has now begun and we will aggressively pursue all remedies available under the judgement, which include garnishment of cash and the forced sale of corporate assets, until the entire amount has been collected.

An encouraging outlook

Nostra Terra has made a strong start to 2013, both operationally and financially. In January, we surpassed breakeven on an operational basis – a major milestone in our development. This was the result of greater than expected production from the Chisholm Trail wells, combined with production from the rest of our portfolio. We expect most of the revenue from Chisholm Trail to come through from 2013 onwards.

With production now comfortably covering our operating overheads, we can apply our operating margins and all new funds raised to the leasing and drilling of new wells. Several wells are planned for 2013 within Chisholm Trail, as well as in other prospects. We will continue to minimise overheads and remain focused on growing our production throughout the year.

Matt Lofgran
Chief Executive Officer

4 June 2013

Directors' report

The directors present their report with the financial statements of Nostra Terra Oil and Gas Company plc ("the Company") and its subsidiaries (collectively "the Group") for the year ended 31 December 2012.

Principal activity

The Group's principal activity 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 shown in the financial statements on pages 16 to 25, and are noted in the Chairman's statement on page 3 and the Chief Executive's review on pages 4 to 6.

Key performance indicators

At this stage in the company's development, the directors regularly monitor key performance indicators associated with managing liquid resources, namely: 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 exploration and production is the technical risk of not finding hydrocarbons when an exploration well is drilled. While the US mid-continent is a proven hydrocarbon region and is seeing resurgence through the application of new drilling and well completion technologies, there are environmental and economic risks, as there are in any hydrocarbon region.

Results and dividends

The loss for the year was £840,000, which has been allocated against reserves. No dividends will be distributed for the year ended 31 December 2012.

Directors

The following directors have held office since 1 January 2012:

A M Blennerhassett
M B Lofgran
S V Oakes
A McCall

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

The directors' remuneration for the year is summarised as follows:

	Salaries	Fees	Total
	£	£	£
A M Blennerhassett	–	18,000	18,000
M B Lofgran	102,053	–	102,053
S V Oakes	–	18,000	18,000
A B McCall	92,775	–	92,775
	194,828	36,000	230,828

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

Share options were issued in 2012 as shown below, resulting in a charge for the year of £115,160. Further details can be found at note 22 to these accounts.

At 31 December 2012, the directors' beneficial interests in the Company's issued share capital were as follows:

	31.12.12		01.01.12	
	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	0.27	6,580,000	0.34
M B Lofgran	141,842,506	5.77	79,000,000	4.05
S V Oakes	14,166,666	0.58	14,166,666	0.73
A B McCall	800,000	0.03	–	–

The numbers of options outstanding to the directors at 31 December 2012 were as follows:

	Exercise price	Number of options
M B Lofgran		
Held at 01.01.12	0.1p	217,842,506
Exercised in year		(217,842,506)
Awarded 24.01.12	0.41p	14,000,000
Awarded 19.07.12	0.47p	70,000,000
Held at 31.12.12		84,000,000
A B McCall		
Held at 01.01.12	0.52p	40,000,000
Lapsed in year		(30,000,000)
Awarded 24.01.12	0.41p	14,000,000
Awarded 19.07.12	0.47p	100,000,000
Held at 31.12.12		124,000,000
A M Blennerhassett		
Held at 01.01.12	–	–
Awarded 24.01.12	0.41p	4,000,000
Held at 31.12.12		4,000,000
S V Oakes		
Held at 01.01.12	0.37p	3,000,000
Awarded 24.01.12	0.41p	6,000,000
Held at 31.12.12		9,000,000

Remuneration Committee and policy

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

Substantial shareholders

As at 4 June 2013, the Company was aware of the following interests in its issued share capital:

	No of ordinary shares of 0.1p each	Percentage of issued share capital
TD Direct Investing Nominees (Europe) Limited	350,812,531	13.55
Barclayshare Nominees Limited	337,885,222	13.05
HSDL Nominees Limited	268,937,553	10.39
JIM Nominees Limited	171,370,937	6.62
Investor Nominees Limited	164,594,090	6.36
HSBC Client Holdings Nominee (UK) Limited	156,339,552	6.04
M B Lofgran	141,842,506	5.48
L R Nominees Limited	134,172,627	5.18
Pershing Nominees Limited	104,862,226	4.05
Hargreaves Lansdown (Nominees) Limited	102,069,032	3.94
Share Nominees Ltd	85,939,536	3.32

Political and charitable contributions

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

Group policy on supplier payment

The Group's normal practice is to pay suppliers in accordance with agreed terms, provided 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 201 (2011: 30) days.

Events after the reporting period

Refer to note 25 for details.

Publication of accounts on company website

The Company publishes financial statements on its website. The directors are responsible for the website's maintenance and integrity, and their 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. The Group maintains 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 its foreign exchange exposure by matching foreign currency income with foreign currency costs.

For the time being, the Group does not consider it necessary to enter into foreign exchange contracts to manage its foreign currency risk, given the nature of its business.

Directors' report continued

Listing

The Company's ordinary shares have traded on London's Alternative Investment Market since 20 July 2007. Shore Capital and Corporate Limited is the Company's Nominated Advisor and Alexander David Securities Limited was the Company's sole Broker during the year. On 15 February 2013, the Company announced the appointment of XCAP Securities plc as joint Broker.

The closing mid-market price at 31 December 2012 was 0.472p (2011: 0.39p).

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.

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

4 June 2013

Corporate governance report

The directors recognise the importance of sound corporate governance, commensurate with the Group's size and shareholders' interests. 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, the directors will take steps to comply with the UK Corporate Governance Code.

The Board of Directors

The Board comprises two executive directors and two non-executive directors. It 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:

- management structure and appointments;
- consideration of strategy and policy;
- approval of major capital investments and transactions; and
- significant financing matters.

The Board has Audit, Remuneration and Nomination Committees, the roles and responsibilities of which are discussed below.

Audit Committee

The Audit Committee comprises A M Blennerhassett as Chairman, and S V Oakes. Both have considerable and relevant financial experience.

The Audit Committee has terms of reference agreed by the Board and meets at least twice a year. The committee provides an opportunity for reporting by the Company's auditors, and 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; and
- reviewing and monitoring the external auditor's independence, and the 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 auditors and to approve the external auditors' remuneration and terms of engagement. 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 Group's staff 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 it is designated to consider;
- 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;
- determining targets for any performance-related pay schemes operated by the Group;
- determining the policy and scope of pension arrangements for each executive director; and
- ensuring that contractual terms on termination and any payments made are fair to the individual and the Company.

The Remuneration Committee determines 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 are given a priority. The Company maintains a website, www.ntog.co.uk, to improve information flow to shareholders and 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 Company's assets 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 this time.

Board of directors

Sir Adrian Blennerhassett Non-Executive Chairman

Previous positions held by Sir Adrian (73) 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 (38) 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 (62) 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 (57) 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 2012, 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 2012 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 IFRS's 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.

David Warren
SENIOR STATUTORY AUDITOR
For and on behalf of Jeffreys Henry LLP, Statutory Auditor

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

4 June 2013

Consolidated income statement

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Revenue		352	244
Cost of sales		(262)	(370)
GROSS PROFIT/(LOSS)		90	(126)
Share based payment		(115)	–
Administrative expenses		(876)	(933)
OPERATING LOSS	5	(901)	(1,059)
Finance income	4	89	63
Finance expense	4	(28)	–
LOSS BEFORE TAX		**(840)**	**(996)**
Tax (expense) recovery	6	–	–
LOSS FOR THE YEAR		**(840)**	**(996)**
Attributable to:			
Owners of the Company		**(840)**	**(996)**
Earnings per share expressed in pence per share:			
Continued operations			
Basic and diluted (pence)	8	(0.039)	(0.056)

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	2012 £000	2011 £000
Loss for the year	(840)	(996)
Other comprehensive income:		
Currency translation differences	–	–
Total comprehensive income for the year	(840)	(996)
Total comprehensive income attributable to:		
Owners of the Company	(840)	(996)

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Share capital £000	Share premium £000	Share options reserve £000	Translation reserves £000	Retained losses £000	Total £000
As at 1 January 2011	**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**
Shares issued	515	773	–	–	–	1,288
Share issue costs	–	(70)	–	–	–	(70)
Foreign exchange translation	–	–	–	(40)	–	(52)
Loss after tax for the year	–	–	–	–	(840)	(840)
Share based payments	–	–	115	–	–	115
As at 31 December 2012	**2,465**	**9,104**	**115**	**(28)**	**(7,745)**	**3,899**

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 arise 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 2012

	Share capital £000	Share premium £000	Retained losses £000	Total £000
As at 1 January 2011	**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**
Shares issued	515	773	–	1,288
Share issue costs	–	(70)	–	(70)
Loss after tax for the year	–	–	(362)	(362)
As at 31 December 2012	**2,465**	**9,104**	**(6,544)**	**5,025**

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 2012

	Notes	2012 £000	2011 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	9	–	–
Other Intangibles	10	3,393	1,221
Property, plant and equipment			
– oil and gas assets	11	468	220
– others	11	–	–
		3,861	1,441
CURRENT ASSETS			
Trade and other receivables	13	1,089	974
Deposits and prepayments		65	11
Cash and cash equivalents	14	309	1,457
		1,463	2,442
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	815	57
Financial liabilities – borrowings	16	598	-
		1,413	57
NET CURRENT ASSETS		50	2,385
NON-CURRENT LIABILITIES			
Financial liabilities – borrowings	16	–	368
NET ASSETS		3,911	3,458
EQUITY AND RESERVES			
Called up share capital	17	2,465	1,950
Share premium	18	9,104	8,401
Translation reserves	18	(28)	12
Share option reserve	22	115	–
Retained losses	18	(7,745)	(6,905)
		3,911	3,458

The financial statements were approved and authorised for issue by the Board of Directors on 4 June 2013 and were signed on its behalf by:

M B Lofgran
Director

Company registered number: 05338258

Company statement of financial position

31 December 2012

	Notes	2012 £000	2011 £000
ASSETS			
NON-CURRENT ASSETS			
Fixed asset investments	12	5,913	3,951
		5,913	3,951
CURRENT ASSETS			
Trade and other receivables	13	7	49
Cash and cash equivalents	14	12	193
		19	242
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	547	24
Financial liabilities – borrowings	16	246	–
		793	24
NET CURRENT ASSETS		(774)	218
NET ASSETS		5,139	4,169
EQUITY AND RESERVES			
Called up share capital	17	2,465	1,950
Share premium	18	9,104	8,401
Share option reserve	22	115	–
Retained losses	18	(6,545)	(6,182)
		5,139	4,169

The financial statements were approved and authorised for issue by the Board of Directors on 4 June 2013 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 2012

	Notes	2012 £000	2011 £000
Cash flows from operating activities			
Cash generated/(consumed) by operations	1	68	(1,223)
Cash generated/(consumed) by operations		68	(1,223)
Cash flows from investing activities			
Purchase of intangibles – new oil and gas properties		(2,215)	(8)
Purchase of plant and equipment		(308)	9
Interest received		89	–
Net cash from investing activities		(2,434)	1
Cash flows from financing activities			
Issue of new shares		1,218	1,959
New borrowing (net)		–	–
Net cash from financing activities		1,218	1,959
Increase/(decrease) in cash and cash equivalents		(1,148)	737
Cash and cash equivalents at beginning of year	14	1,457	720
Cash and cash equivalents at end of year		**309**	**1,457**
Represented by:			
Cash at bank	14	309	1,457

Note to the consolidated statement of cash flows

for the year ended 31 December 2012

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

	2012 £000	2011 £000
Loss before tax for the year	(840)	(996)
Depreciation of property, plant and equipment	62	34
Amortisation of intangibles	41	2
Foreign exchange loss/(gains) non-cash items	(40)	47
Finance income	(89)	–
Share based payment	115	–
Operating cash flows before movements in working capital	(751)	(913)
Decrease (increase) in receivables	(170)	(191)
Increase (decrease) in payables	989	(119)
Cash (consumed) by continuing operations	68	(1,223)

Company statement of cash flows

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Cash (consumed) by operations	1	563	(391)
Net cash from operating activities		563	(391)
Cash flows from investing activities			
Interest received		–	–
Net cash from investing activities		–	–
Cash flows from financing activities			
Inter group loan (advances)		(1,962)	(1,916)
Issue of new shares		1,218	1,959
Net cash from financing activities		(744)	43
Increase/(decrease) in cash and cash equivalents		(181)	(348)
Cash and cash equivalents at beginning of year	14	193	541
Cash and cash equivalents at end of year		12	193
Represented by:			
Cash at bank	14	12	193

Note to the company statement of cash flow

for the year ended 31 December 2012

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

	2012 £000	2011 £000
Loss before tax for the year	(363)	(284)
Impairment of cost of investments	–	–
Share based payment	115	–
Operating cash flows before movements in working capital	(248)	(284)
(Increase)/decrease in receivables	42	15
Increase/(decrease) in payables	769	(122)
Cash (consumed) by continuing operations	563	(391)

Notes to the financial statements
for the year ended 31 December 2012

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 reasonable 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
- There are no IFRS or IFRIC interpretations that are effective for the first time in this financial period that would be expected to have a material impact on the group.

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 2012 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.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

Basis of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

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.

1. ACCOUNTING POLICIES continued

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.

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.

Investments

Investments are stated at cost less provision for any impairment value.

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.

1. ACCOUNTING POLICIES continued

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.

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.

The fair value of share-based payments recognised in the statement of comprehensive income is measured by use of the Black Scholes model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted; based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The share price volatility percentage factor used in the calculation is based on management's best estimate of future share price behaviour and is selected based on past experience, future expectations and benchmarks against peer companies in the industry.

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.

1. ACCOUNTING POLICIES continued

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.

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 2012 £000	**Ukraine 2012 £000**	**Head office 2012 £000**	**Total 2012 £000**
Segment results – 2012				
Revenue				
Total	352	–	–	352
Inter company	–	–	–	–
Revenue	352	–	–	352
Operating loss before depreciation, amortisation share-based payment charges and restructuring costs:	(798)	–	–	(798)
Depreciation of tangibles	(62)	–	–	(62)
Amortisation of intangibles	(41)	–	–	(41)
Operating loss	(901)	–	–	(901)
Realised exchange (loss)/gain	(44)	16	–	(28)
Finance income	89	–	–	89
Gain (loss) before taxation	(856)	16	–	(840)
Segment assets				
Property, plant and equipment	468	–	–	468
Intangible assets	3,393	–	–	3,393
Cash and cash equivalents	309	–	–	309
Other assets	1,154	–	–	1,154
	5,324	–	–	5,324

	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	–	–	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

3. EMPLOYEES AND DIRECTORS

	2012 £000	2011 £000
Directors' fees	36	36
Directors' remuneration	195	184
Social security costs	14	9
	245	229

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

	2012 Number	2011 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 listed above.

The highest paid director's emoluments and other benefits for the year ended 31 December 2012 is as listed below:

	Salary £000
M B Lofgran	102

4. FINANCE INCOME/EXPENSE

	2012 £000	2011 £000
On bank balance	–	2
On other receivables	89	61
Finance expense	(28)	–
	61	63

5. OPERATING LOSS FOR THE YEAR

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

	2012 £000	2011 £000
Auditors' remuneration (Company £16,500 – 2011: £18,300)	17	18
Depreciation of property, plant and equipment	62	34
Amortisation of intangibles	41	2
Loss on disposal of fixed assets	–	(1)
Foreign exchange differences	127	11

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

	2012 £000	2011 £000
Directors remuneration	195	184
Social security costs	14	9
Directors' fees	36	36
Consultancy fees	–	14
Travelling and entertaining	99	47
Legal and professional fees	305	301
Auditor's remuneration	17	18
Foreign exchange differences	127	11
Other expenses	83	313
	876	933

6. INCOME TAX EXPENSE

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

	2012 £000	2011 £000
Current tax:		
Corporation tax	–	–
Overseas corporation tax/(recovery)	–	–
Total	–	–

	2012 £000	2011 £000
Loss before tax	(840)	(996)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 24% (2011: 26%)	(202)	(259)
Effects of:		
Non-deductible expenses	43	9
Other tax adjustments	159	250
Foreign tax	–	–
	202	259
Current tax charge	–	–

At 31 December 2011 the Group had excess management expenses to carry forward of £1,096,090 (2011: £849,068) and trading losses of £1,330,990 (2011: £917,630). The deferred tax asset at 24% (2011: 26%) on these tax losses of £582,499 (2011: £459,342) 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 £362,182 (2011: £284,475).

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:

	2012	**2011**
EPS – loss		
Loss attributable to ordinary shareholders (£000)	(840)	(996)
Weighted average number of shares	2,158,226,692	1,777,379,579
Weighted average number of shares on diluted basis	2,162,475,588	2,045,555,418
Continued operations:		
Basic and diluted EPS – loss (pence)	**(0.039)**	**(0.056)**

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 2011	4,211
Additions	–
At 31 December 2011	4,211
Additions	–
At 31 December 2012	4,211
PROVISION	
At 1 January 2011	943
Charge for the year	3,268
At 31 December 2011	4,211
Charge for the year	–
At 31 December 2012	4,211
CARRYING VALUE	
At 31 December 2012	–
At 31 December 2011	–

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

Notes to the financial statements
for the year ended 31 December 2012

10. OTHER INTANGIBLES

Group

	Licence £000	Exploration and evaluation assets £000	Total £000
COST			
At 1 January 2011	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
Additions	–	2,313	2,313
Disposals	–	–	–
Currency loss	(10)	(90)	(100)
At 31 December 2012	213	3,224	3,437
PROVISION			
At 1 January 2011	–	–	–
Charge for the year	–	(3)	(3)
At 31 December 2011	–	(3)	(3)
Charge for the year	–	(41)	(41)
Currency loss	–	–	–
At 31 December 2012	–	(44)	(44)
CARRYING VALUE			
At 31 December 2012	213	3,180	3,393
At 31 December 2011	223	998	1,221

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

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.

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$2.50 per share; and

Richfield has issued Nostra Terra a Warrant, exercisable in whole or in part, to subscribe for up to 600,000 shares of Richfield common stock with an aggregate exercise price of US$1.5 million, at a strike price of US$2.50 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.

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant & equipment – oil and gas assets £000	Plant & equipment – other assets £000	Total £000
COST			
At 1 January 2011	269	–	269
Disposals	(40)	–	(40)
Additions	36	–	36
At 31 December 2011	265	–	265
Dispositions	–	–	–
Additions	356	–	356
Currency Loss	(49)	–	(49)
At 31 December 2012	572	–	572
PROVISION			
At 1 January 2011	11	–	11
Dispositions	–	–	–
Charge for the year	34	–	34
At 31 December 2011	45	–	45
Dispositions	–	–	–
Charge for the year	62	–	62
Currency loss	(3)	–	(3)
At 31 December 2012	104	–	104
CARRYING VALUE			
At 31 December 2012	468	–	468
At 31 December 2011	220	–	220

12. FIXED ASSET INVESTMENTS

Company

	Investment in subsidiary £000	Loan to subsidiaries £000	Total £000
COST			
At 1 January 2011	4,409	2,595	7,004
Additions	–	1,916	1,916
At 31 December 2011	4,409	4,511	8,920
Additions	–	1,962	1,962
At 31 December 2012	4,409	6,473	10,882
PROVISION			
At 1 January 2011	4,409	560	4,969
Charge for the year	–	–	–
At 31 December 2011	4,409	560	4,969
Charge for the year	–	–	–
At 31 December 2012	4,409	560	4,969
CARRYING VALUE			
At 31 December 2012	–	5,913	5,913
At 31 December 2011	–	3,951	3,951

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 operations in USA

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Current:				
Other receivables	1,079	943	–	21
Other taxes receivables	10	31	7	28
	1,089	974	7	49

Other receivables include £950,834 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	
	2012 £000	2011 £000	2012 £000	2011 £000
Bank current accounts	309	1,457	12	193

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Current:				
Trade payables	249	20	–	–
Accruals and deferred income	59	37	44	24
Director's loan account	503	–	503	–
Other taxes payable	4	–	–	–
	815	57	547	24

Trade payables and accruals principally comprise amounts outstanding for trade purchases and on-going 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	
	2012	2011	2012	2011
	£000	£000	£000	£000
Current:				
Repayable within one year:				
Other loans	246	–	246	–
Loan notes	352	–	–	–
Non-current				
Repayable between one and five years:				
Loan notes	–	368	–	–
	598	368	246	–

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.

16. FINANCIAL LIABILITIES – BORROWINGS continued

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:	**2012 £000**	**2011 £000**
2,500 million (2011 – 2,500 million)	Ordinary	0.1p	2,500	2,500

Allotted, called up and fully paid:

Number:	Class:	Nominal value:	**2012 £000**	**2011 £000**
2,465,165,314/1,950,100,585	Ordinary	0.1p	2,465	1,950

18. RESERVES

Group	Translation reserve £000	Retained losses £000	Share premium £000	Total £000
At 1 January 2011	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
Shares issued in the year	–	–	773	773
Share issue cost	–	–	(70)	(70)
Loss for the year	–	(840)	–	(840)
Foreign exchange translation	(40)	–	–	(40)
At 31 December 2012	(28)	(7,745)	9,104	1,331

Company	Retained losses £000	Share premium £000	Total £000
At 1 January 2011	(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
Shares issued in the year	–	773	773
Share issue cost	–	(70)	(70)
Loss for the year	(363)	–	(363)
At 31 December 2012	(6,545)	9,104	2,559

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 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	
	2012	2011	2012	2011
	£	£	£	£
Ukraine Hryvnia (UAH)	0.0768	0.0820	0.0768	0.0820
United States Dollars (US$)	0.6185	0.6470	0.6185	0.6470

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:

	2012	2011
Per barrel – US$	101.17	104.26
Per barrel – £	62.57	67.46

Liquidity risk

The Group expects to fund its exploration and development programme, as well as its administrative and operating expenses throughout 2013, principally using existing working capital and expected proceeds from the sale of future crude oil production. The Group had a bank balance of approximately £309,000 at 31 December 2012.

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

Stock to the value of £502,750 owned by Matt Lofgran was advanced to the group during 2012. This is held in escrow by Yorkville on behalf of New Horizons One LLC, and is sold where necessary to provide working capital funding to the group. The balance owing to Matt Lofgran, a Director of the company, was £502,750 (2011: nil) at the year-end.

Company

During the year, the Company advanced loans to its subsidiaries. The details of the transactions and the amount owed by the subsidiaries at the year-end were:

	2012		2011	
	Balance	**Loan advance/ repayment**	**Balance**	**Loan advance/ repayment**
	£000	**£000**	**£000**	**£000**
New Horizon Energy 1 LLC	5,606	1,955	3,651	1,916
Goldhawk Oil & Gas, LLC	861	–	861	706
Churchill Operating, LLC	–	–	–	–
Nostra Terra (Overseas) Limited	7	–	7	–
Totals	**6,474**	**1,955**	**4,519**	**2,622**

At the year-end, the Company made a provision of £nil (2011: £nil) against the outstanding loan balance due from NHE. The net amount due to the Company from NHE after provision carried forward of £560,000 at the year-end was £5,045,661 (2011: £3,090,797). Additionally, during the year, the Company also charged management fees of £36,937 (2011: £13,734) to NHE.

The intercompany loans are unsecured and interest-free.

22. SHARE-BASED PAYMENTS

In 2012 new options of 38,000,000 and 170,000,000 were issued to the directors of the company on 25 January 2012 and 19 July 2012 respectively. The share based payment charge for the year in respect of the issued option was £115,160.

In 2011 there was no share based payment charge as the amount was not material.

The details of options and warrants are as follows:

Date of grant	Granted	Exercised/ vested	Forfeits	At 31.12.12	Exercise price	Exercise/vesting date From	To
Warrants							
25/06/2007	4,000,000	–	(4,000,000)	–	2.00	25/06/2001	30/04/2012
30/06/2009	217,842,506	(217,842,506)	–	–	0.1	30/06/2009	30/06/2012
22/06/2010	10,000,000	–	–	10,000,000	0.52	22/06/2010	21/06/2015
22/06/2010	30,000,000	–	(30,000,000)	–	0.75	22/06/2010	21/06/2015
17/01/2011	3,000,000	–	–	3,000,000	0.37	17/01/2011	14/01/2014
01/07/2011	3,333,333	–	–	3,333,333	0.6	01/07/2011	01/07/2014
Options							
25/01/2012	38,000,000	–	–	38,000,000	0.41	25/01/2012	25/01/2017
19/07/2012	170,000,000	–	–	170,000,000	0.47	19/07/2012	19/07/2017

The total options and warrants outstanding at 31 December 2012 and 31 December 2011 are as follows:

Total at 31.12.12	224,333,333
Total at 31.12.11	268,175,839

The numbers of options outstanding to the directors at 31 December 2012 were as follows:

Director	Warrants		Options		Total	
	2012	2011	2012	2011	2012	2011
M B Lofgran	–	217,842,506	84,000,000	–	84,000,000	217,842,506
A B McCall	10,000,000	40,000,000	114,000,000	–	124,000,000	40,000,000
S V Oakes	3,000,000	3,000,000	6,000,000	–	9,000,000	3,000,000
Sir Adrian Blennerhassett	–	–	4,000,000	–	4,000,000	–
Totals	**13,000,000**	**260,842,506**	**208,000,000**	**–**	**221,000,000**	**260,842,506**
Other third party holdings	3,333,333	7,333,333	–	–	3,333,333	7,333,333

22. SHARE-BASED PAYMENTS continued

The estimated fair value of the warrants issued during the year was calculated by applying the Black-Scholes option pricing model. Expected volatility was originally stated at 30%. This has been revised to 50% because the volatility over the past year has been used rather than the past 5 years. The directors consider this is more appropriate due to a significant share price drop in 2008 which is attributable to a one-off event where work stopped during the opening of a well in Ukraine. The assumptions used in the calculation were as follows;

	19 July 2012	25 January 2012	1 July 2011	17 January 2011	22 June 2010	30 June 2009
Share price at grant date	0.47p	0.44p	0.68p	0.5p	0.47p	0.2p
Exercise price	0.46p	0.41	0.6p	0.37p	0.52p	0.1p
Option life in years	3.5 years	3.5 years	3 years	3 years	5 years	3 years
Risk free rate	0.69%	0.60%	4.3%	4.3%	3.5%	3.5%
Expected volatility	50%	50%	30%	30%	10%	10%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Fair value of option/warrant	0.12p	0.14p	0.12p	0.23p	0p	0.09p

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

In January 2013 the Company surpassed break even on an operational basis. The primary contribution was the additional production from the first four wells in the Chisholm Trail prospect.

On 13 March 2013, the Company entered into an agreement acquiring 5% working interest in the High Plains Prospect operated by Brown & Borelli. The Company subsequently increased its interest to 20% on 31 May 2013.

On 2 April 2013, the Company was awarded a judgment against Richfield Oil & Gas in excess of US$1.5 million. Collection efforts have since begun.

On 1 May 2013, a further £0.5 million was raised £502,750 under its aggregated stand-by equity distribution agreement with Yorkville Global Advisors, as amended on 23 October 2012, through the issue of 123,546,296 new ordinary shares of 0.1p ("Ordinary Shares") at an average price of 0.407p per share. The majority of the proceeds have been deployed to acquire additional leases and expand the Prospect, along with developing further opportunities.

On 1 May 2013, the Company also announced that additional acreage was acquired in the Chisholm Trail Prospect, giving exposure to 21 potential drilling locations.

Nostra Terra

OIL & GAS COMPANY PLC