



Nostra Terra

OIL & GAS COMPANY PLC

ANNUAL REPORT 2013

Contents

	Page
Highlights	1
Company information	2
Chairman's statement	3
Chief Executive's review	4
Strategic report	6
Directors' report	7
Corporate governance report	11
Board of directors	13
Independent auditors' report	14
Consolidated income statement	16
Consolidated statement of comprehensive income	17
Consolidated statement of changes in equity	18
Company statement of changes in equity	19
Consolidated statement of financial position	20
Company statement of financial position	21
Consolidated statement of cash flows	22
Note to the consolidated statement of cash flows	23
Company statement of cash flows	24
Note to the company statement of cash flows	25
Notes to the financial statements	26

Highlights

- 142% increase in revenue to £851,000 (2012: £352,000)
- Gross profit of £551,000 before depletion, depreciation and amortisation (2012: £192,000)
- Acquired 5% interest in High Plains exploration play then increased interest to 20%
- Raised £750,000 via placing
- Successfully concluded legal action against Richfield Oil & Gas, in a judgement exceeding US\$1.6 million

Post balance sheet highlights

- US\$25 million credit facility with Texas Capital Bank
- Credit facility borrowing base more than doubled ahead of schedule
- Final payment received in respect of Richfield legal action
- Daily production expected to reach 150 boepd by Q3

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	Northland Capital Partners Limited 131 Finsbury Pavement London EC2A 1NT
Broker	Hume Capital Securities plc 1 Carey Lane London EC2V 8AE
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 2013. This was a busy and positive year. Significantly, Nostra Terra passed the operational breakeven point, before central costs, depletion, depreciation and amortisation, for the first time in the company's history. We also maintained our strategy of carefully considered growth and significantly increased both production and revenue.

Exploration and production

In the year we made several sensibly judged investments in existing and new fields. More details can be found in the Chief Executive's review on page 4. We continued to build a diverse and balanced portfolio and extended our geographical footprint in line with our stated strategy of finding new hydrocarbon reserves in 'old fields'. Our portfolio is being structured to provide a spread of strong and reliable long-term revenues, and in 2013 we added to its depth.

Financial highlights

I am delighted to report that in 2013 our revenues grew to £851,000 from £352,000 in 2012 – an increase of 142%. During the period we completed a single placing, raising £750,000 at a small discount of just 10%, a fantastic result given the extremely difficult conditions in the UK corporate market at the time. Furthermore, our protracted litigation with Richfield finally reached a successful conclusion, giving us cash to invest without further dilution to shareholders. More recently we also secured a US\$25 million credit facility with the highly regarded Texas Capital Bank. This extends our ability to quicken the pace of growth and also gives us the strength and agility to take advantage of the right opportunities when they present themselves.

Summary

Nostra Terra made considerable progress throughout 2013, thanks in large part to the exemplary efforts of our executive directors, Matt Lofgran and Alden McCall, who I thank. I also want to acknowledge Nostra Terra's shareholders for their enduring loyalty to our company.

Sir Adrian Blennerhassett

Chairman

22 May 2014

Chief Executive's review

Nostra Terra is a UK-based oil and gas producer with interests in Texas, Oklahoma, Colorado and Kansas. We aim to increase shareholder value by using advanced technology to find new hydrocarbon reserves in already established fields. Our strategy is to put a diverse portfolio of interests in place in low-risk geographies that will consistently grow production and revenues. To this end, 2013 saw the company make steady progress. We extended our portfolio; we significantly increased the volume of production; and we finally settled a long-running legal action. The year placed Nostra Terra in a very strong cash position and has set us up for further more accelerated growth in 2014.

Extending our portfolio

In 2012 we acquired a 20% interest in the Chisholm Trail Prospect in Oklahoma, assessing it as low-risk and moderate-return. This is exactly what it has turned out to be. Our investments here were consistently successful in 2013, yielding excellent results and justifying our decision to concentrate resources on Chisholm Trail.

Revenues from the first four wells helped us pass the landmark of operational breakeven, before central costs, in January 2013. In particular well CT4 more than doubled our expectations. We decided to exploit the Chisholm Trail opportunity further by partnering in additional wells and in mid-year we acquired additional acreage, giving us access to 21 new potential drilling locations.

Subsequently we've made investments in a further 11 wells to date, bringing the total up to 15 wells. The three new wells that are producing already – CT7, CT8 and CT9 – have increased our total daily production by 57%.

Chisholm Trail continues to allow room for growth and we expect it to yield further significant increases to our net production. It already supplies an extremely valuable revenue stream that supports our ability to pursue other opportunities. Moreover the strength of activity and results have de-risked the Hunton Limestone formation where the Chisholm Trail Prospect is located, and this helped us attract new investment (see Financials below).

In March 2013, we identified an opportunity in Texas with similar potential to Chisholm Trail, and purchased a 5% working interest ("WI") in the High Plains Prospect. This Prospect covers 66 square miles, and is operated by Brown and Borelli, a highly experienced and respected firm.

We subsequently increased our interest to 20% following re-entry of a previously drilled well in the prospect. Work is now ongoing to integrate detailed subsurface mapping and 3D seismic data that will prioritize the prospect areas for drilling. We have assessed High Plains as being more risky than Chisholm Trail, but with the potential for higher rewards. In fact the dependable revenue streams from Chisholm Trail mean we are more comfortably positioned to enter into higher-risk opportunities to strengthen our portfolio. Meanwhile, the geophysical results indicate that High Plains might provide the opportunity to build a healthy pipeline of drilling locations for some years to come.

Net production in 2013

With the expansion of our portfolio, net production to Nostra Terra has risen as detailed in the following table.

Prospect	State	NTOG operated	Working interest	Net production (BOE)	
				2013	2012
Bloom	Kansas	Yes	100%	1,645	3,192
Vintage Hills	Texas	No	1%	0	8
Nesbitt	Texas	No	3%	73	106
Verde	Colorado	No	16%	1,426	2,088
Warrior	Oklahoma	No	10%	199	331
Bale Creek	Oklahoma	No	30%	929	331
Chisholm Trail	Oklahoma	No	varies	13,401	212
High Plains	Texas	No	20%	–	–
Total				17,673	6,268

Financials

As the chairman said, in 2013 Nostra Terra's revenue grew considerably to £851,000 in 2013, against £352,000 in 2012, due to greatly increased production volumes. This represents an increase of 142%. Gross profit (before depletion, depreciation and amortisation) increased to £551,000, against £192,000 in 2012.

In respect of capital, Nostra Terra raised £750,000 before expenses by way of a placing of 187,500,000 new ordinary shares of 0.1p each with existing and new investors.

I am very pleased to report that the legal action against Richfield Oil and Gas Company was finally resolved in Nostra Terra's favour and the monies owing to us were paid. In all we received over US\$1.6 million. Richfield has also voluntarily dismissed all counterclaims against Nostra Terra.

After the balance sheet date we also secured a US\$25 million credit facility with Texas Capital Bank, which includes provisions to increase the borrowing base as additional wells are brought on production. We agreed an initial borrowing base of US\$500,000 which has increased to \$1.1 million following a stabilisation of production rates, as announced on 7 May 2014. This strong credit line will give us the ability to quicken the pace of growth through non-dilutive funds.

An exciting future

We achieved a great deal in 2013. We made careful decisions to expand our interests in the lucrative Chisholm Trail Prospect and diversify into High Plains, broadening our production base. We increased revenue, with our focus now on free cash flow so that we can support more rapid growth in 2014 and beyond.

In the background we have also been building up our operational capabilities to prepare Nostra Terra for a transition towards operating more of our own prospects. We have an exciting future as we look to take much larger steps in growing production and reserves. A very solid foundation has been built from which to accelerate growth.

It only remains for me to thank all Nostra Terra's shareholders for their continuing loyal support. I look forward to giving you regular good news about our company in the months ahead.

Matt Lofgran

Chief Executive Officer

22 May 2014

Strategic report

The directors now present their strategic 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 2013.

Principal activity

The group’s principal activity is the exploitation of hydrocarbon resources in the US mid-continent.

Review of business, future developments, trading outlook and future strategy

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 and 5.

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. The directors also monitor the increase in net production which in 2013 rose to 17,673 BOE (2012: 6,268) as noted on page 5.

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. Further information relating to risk can be found at note 19 to these accounts.

On behalf of the board:

M B Lofgran

Director

22 May 2014

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 2013.

Directors

The following directors have held office since 1 January 2013:

A M Blennerhassett
M B Lofgran
S V Oakes
A McCall

Alden McCall and Stephen Vaughan Oakes will retire at the company's forthcoming Annual General Meeting under the company's Articles of Association and, being eligible, offers themselves for re-election.

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

	Salaries	Fees	Total
	£	£	£
A M Blennerhassett	–	9,000	9,000
M B Lofgran	121,505	–	121,505
S V Oakes	–	22,500	22,500
A B McCall	111,913	–	111,913
	<u>233,418</u>	<u>31,500</u>	<u>264,918</u>

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

Share options issued in 2012 resulted in a charge for the year of £4,329. Further details can be found at note 22 to these accounts.

At 31 December 2013, the directors' beneficial interests in the company's issued share capital were as follows:

	31.12.13		01.01.13	
	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	7,280,200	0.26	6,580,000	0.27
M B Lofgran	218,798,802	7.88	141,842,506	5.77
S V Oakes	14,166,666	0.51	14,166,666	0.58
A B McCall	800,000	0.03	800,000	0.03

Directors' report continued

The numbers of options outstanding to the directors at 31 December 2013 were as follows:

	Exercise price	Number of options
M B Lofgran		
Held at 01.01.13	0.41p/0.47p	84,000,000
Forfeited in year	0.47p	20,000,000
Held at 31.12.13	0.41p/0.47p	<u>64,000,000</u>
A B McCall		
Held at 01.01.13	0.41p/0.47p	124,000,000
Forfeited in year	0.47p	30,000,000
Held at 31.12.13	0.41p/0.47p	<u>94,000,000</u>
A M Blennerhassett		
Held at 01.01.13 and 31.12.13	0.41p	<u>4,000,000</u>
S V Oakes		
Held at 01.01.13 and 31.12.13	0.41p	<u>9,000,000</u>

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 28 May 2014, 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
Barclayshare Nominees Limited	359,163,203	12.94
TD Direct Investing Nominees (Europe) Limited	358,705,097	12.92
HSDL Nominees Limited	349,987,449	12.61
M B Lofgran	218,798,802	7.88
JIM Nominees Limited	194,390,250	7.00
HSBC Client Holdings Nominee (UK) Limited	170,419,798	6.14
Investor Nominees Limited	166,528,729	6.00
Hargreaves Lansdown (Nominees) Limited	89,284,762	3.22

Results and dividends

The loss for the year was £1,554,000, which has been allocated against reserves. No dividends will be distributed for the year ended 31 December 2013.

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 87 (2012: 37) 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 brought 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 2013 was 0.300p (2012: 0.472p).

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 in respect of the Strategic report, the Directors' report and the Financial Statements

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 Jeffrey's 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

22 May 2014

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.

Corporate governance report continued

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 (74) 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 (63) 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 (58) 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 2013, 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, Strategic report, 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 2013 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 Jeffrey's Henry LLP, Statutory Auditor

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

22 May 2014

Consolidated income statement

for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Revenue		851	352
Cost of sales			
Production costs		(195)	(158)
Exploration and appraisal		(130)	(2)
Depletion, depreciation and amortisation		(976)	(102)
Total cost of sales		(1,301)	(262)
GROSS (LOSS)/PROFIT		(450)	90
Share based payment		(4)	(115)
Administrative expenses		(1,052)	(876)
OPERATING LOSS	5	(1,506)	(901)
Finance income	4	62	89
Finance expense	4	(110)	(28)
LOSS BEFORE TAX		(1,554)	(840)
Tax (expense) recovery	6	–	–
LOSS FOR THE YEAR		(1,554)	(840)
Attributable to:			
Owners of the company		(1,554)	(840)
Earnings per share expressed in pence per share:			
Continued operations			
Basic and diluted (pence)	8	(0.059)	(0.039)

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	2013	2012
	£000	£000
Loss for the year	(1,554)	(840)
Other comprehensive income:		
Currency translation differences	102	(40)
	<hr/>	<hr/>
Total comprehensive income for the year	(1,452)	(880)
	<hr/>	<hr/>
Total comprehensive income attributable to:		
Owners of the company	(1,452)	(880)
	<hr/> <hr/>	<hr/> <hr/>

Consolidated statement of changes in equity

for the year ended 31 December 2013

	Share capital	Share premium	Share options reserve	Translation reserves	Retained losses	Total
	£000	£000	£000	£000	£000	£000
As at 1 January 2012	1,950	8,401	–	12	(6,905)	3,458
Shares issued	515	773	–	–	–	1,288
Share issue costs	–	(70)	–	–	–	(70)
Foreign exchange translation	–	–	–	(40)	–	(40)
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)	3,911
Shares issued	311	942	–	–	–	1,253
Share issue costs	–	(55)	–	–	–	(55)
Foreign exchange translation	–	–	–	102	–	102
Loss after tax for the year	–	–	–	–	(1,554)	(1,554)
Share based payments	–	–	4	–	–	4
As at 31 December 2013	2,776	9,991	119	74	(9,299)	3,661

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 2013

	Share capital	Share premium	Share option reserve	Retained losses	Total
	£000	£000	£000	£000	£000
As at 1 January 2012	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	–	–	–	(363)	(363)
Share based payments	–	–	115	–	115
As at 31 December 2012	2,465	9,104	115	(6,545)	5,139
Shares issued	311	942	–	–	1,253
Share issue costs	–	(55)	–	–	(55)
Loss after tax for the year	–	–	–	(2,325)	(2,325)
Share based payments	–	–	4	–	4
As at 31 December 2013	2,776	9,991	119	(8,870)	4,016

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 2013

	Notes	2013 £000	2012 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	9	–	–
Other Intangibles	10	2,938	3,393
Property, plant and equipment – oil and gas assets	11	489	468
		<u>3,427</u>	<u>3,861</u>
CURRENT ASSETS			
Trade and other receivables	13	253	1,089
Prepayments and accrued income		290	65
Cash and cash equivalents	14	371	309
		<u>914</u>	<u>1,463</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	336	815
Financial liabilities – borrowings	16	344	598
		<u>680</u>	<u>1,413</u>
NET CURRENT ASSETS		<u>234</u>	<u>50</u>
NET ASSETS		<u><u>3,661</u></u>	<u><u>3,911</u></u>
EQUITY AND RESERVES			
Called up share capital	17	2,776	2,465
Share premium	18	9,991	9,104
Translation reserves	18	74	(28)
Share option reserve	22	119	115
Retained losses	18	(9,299)	(7,745)
		<u>3,661</u>	<u>3,911</u>

The financial statements were approved and authorised for issue by the Board of Directors on 22 May 2014 and were signed on its behalf by:

M B Lofgran
Director

Company registered number: 05338258

Company statement of financial position

31 December 2013

	Notes	2013 £000	2012 £000
ASSETS			
NON-CURRENT ASSETS			
Fixed asset investments	12	4,027	5,913
		<u>4,027</u>	<u>5,913</u>
CURRENT ASSETS			
Trade and other receivables	13	6	7
Cash and cash equivalents	14	30	12
		<u>36</u>	<u>19</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	47	547
Financial liabilities – borrowings	16	–	246
		<u>47</u>	<u>793</u>
NET CURRENT LIABILITIES		<u>(11)</u>	<u>(774)</u>
NET ASSETS		<u>4,016</u>	<u>5,139</u>
EQUITY AND RESERVES			
Called up share capital	17	2,776	2,465
Share premium	18	9,991	9,104
Share option reserve	22	119	115
Retained losses	18	(8,870)	(6,545)
		<u>4,016</u>	<u>5,139</u>

The financial statements were approved and authorised for issue by the Board of Directors on 22 May 2014 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 2013

	Notes	2013 £000	2012 £000
Cash flows from operating activities			
Cash generated/(consumed) by operations	1	61	68
Cash generated/(consumed) by operations		61	68
Cash flows from investing activities			
Purchase of intangibles – new oil and gas properties		(578)	(2,215)
Purchase of plant and equipment		(116)	(308)
Interest received		–	89
Net cash from investing activities		(694)	(2,434)
Cash flows from financing activities			
Issue of new shares		695	1,218
New borrowing (net)		–	–
Net cash from financing activities		695	1,218
Increase/(decrease) in cash and cash equivalents		62	(1,148)
Cash and cash equivalents at beginning of year	14	309	1,457
Cash and cash equivalents at end of year		371	309
Represented by:			
Cash at bank	14	371	309

Note to the consolidated statement of cash flows

for the year ended 31 December 2013

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

	2013	2012
	£000	£000
Loss before tax for the year	(1,554)	(840)
Depreciation of property, plant and equipment	84	62
Amortisation of intangibles	806	41
Well impairments	86	–
Loss on disposal of assets	105	–
Foreign exchange loss/(gains) non-cash items	148	(40)
Finance income	–	(89)
Share based payment	4	115
Operating cash flows before movements in working capital	<u>(321)</u>	<u>(751)</u>
Decrease (increase) in receivables	611	(170)
Increase (decrease) in payables	(229)	989
Cash (consumed) by continuing operations	<u><u>61</u></u>	<u><u>68</u></u>

Company statement of cash flows

for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Cash (consumed) by operations	1	(355)	563
Net cash from operating activities		<u>(355)</u>	<u>563</u>
Cash flows from investing activities			
Interest received		<u>-</u>	<u>-</u>
Net cash from investing activities		<u>-</u>	<u>-</u>
Cash flows from financing activities			
Inter group loan (advances)		(322)	(1,962)
Issue of new shares		695	1,218
Net cash from financing activities		<u>373</u>	<u>(744)</u>
Increase/(decrease) in cash and cash equivalents		18	(181)
Cash and cash equivalents at beginning of year	14	12	193
Cash and cash equivalents at end of year		<u>30</u>	<u>12</u>
Represented by:			
Cash at bank	14	<u>30</u>	<u>12</u>

Note to the company statement of cash flow

for the year ended 31 December 2013

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

	2013	2012
	£000	£000
Loss before tax for the year	(2,325)	(363)
Impairment of cost of investments	1,886	–
Foreign exchange loss/(gain) non-cash items	322	–
Share based payment	4	115
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(113)	(248)
(Increase)/decrease in receivables	1	42
Increase/(decrease) in payables	(243)	769
	<hr/>	<hr/>
Cash (consumed) by continuing operations	(355)	563
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements

for the year ended 31 December 2013

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 US\$25 million credit facility (current borrowing base US\$1.1 million and anticipated to increase) in 2014, a £5 million financing agreement (expandable to £10 million), and a 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 2013 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.
- IAS 28, 'Investments in Associates and Joint Ventures' – effective 1 January 2014 – supersedes IAS 28 'Investments in Associates' and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

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.

Notes to the financial statements

for the year ended 31 December 2013

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 – over 7 years

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.

Notes to the financial statements

for the year ended 31 December 2013

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.

Notes to the financial statements

for the year ended 31 December 2013

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.

Notes to the financial statements

for the year ended 31 December 2013

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 2013 £000	Ukraine 2013 £000	Head office 2013 £000	Total 2013 £000
Segment results – 2013				
Revenue	851	–	–	851
Operating profit/(loss) before depreciation, amortisation share-based payment charges and restructuring costs:	(263)	–	(225)	(508)
Depreciation of tangibles	(84)	–	–	(84)
Amortisation of intangibles	(806)	–	–	(806)
Well impairment	(86)	–	–	(86)
Share based payment	(4)	–	–	(4)
Operating loss	1263	–	(225)	(1,488)
Realised exchange (loss)/gain	(129)	–	–	(129)
Finance income	63	–	–	63
Gain (loss) before taxation	(1,329)	–	(225)	(1,554)
Segment assets				
Property, plant and equipment	489	–	–	489
Intangible assets	2,938	–	–	2,938
Cash and cash equivalents	338	3	30	371
Other assets	537	–	6	543
	4,302	3	36	4,341

	US mid- continent 2012 £000	Ukraine 2012 £000	Head office 2012 £000	Total 2012 £000
Segment results – 2012				
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	297	–	12	309
Other assets	1,147	–	7	1,154
	5,305	–	19	5,324

Notes to the financial statements

for the year ended 31 December 2013

3. EMPLOYEES AND DIRECTORS

	2013	2012
	£000	£000
Directors' fees	32	36
Directors' remuneration	233	195
Social security costs	15	14
	<u>280</u>	<u>245</u>

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

	2013	2012
	Number	Number
Directors	4	4
	<u>4</u>	<u>4</u>

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 2013 is as listed below:

	Salary
	£000
M B Lofgran	<u>122</u>

4. FINANCE INCOME/EXPENSE

	2013	2012
	£000	£000
On bank balance	–	–
On other receivables	62	89
Finance expense	(110)	(28)
	<u>(48)</u>	<u>61</u>

5. OPERATING LOSS FOR THE YEAR

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

	2013	2012
	£000	£000
Auditors' remuneration (company £16,500 – 2012: £16,500; amount for tax compliance services £1,500 – 2012: £1,500)	17	17
Depreciation of property, plant and equipment	84	62
Amortisation of intangibles	806	41
Well impairment	86	–
Foreign exchange differences	208	127
Disposal of exploration and evaluation assets	105	–
	<u>1,052</u>	<u>876</u>

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

	2013	2012
	£000	£000
Directors' remuneration	233	195
Social security costs	15	14
Directors' fees	32	36
Travelling and entertaining	92	99
Legal and professional fees	274	305
Auditor's remuneration	17	17
Foreign exchange differences	208	127
Other expenses	181	83
	<u>1,052</u>	<u>876</u>

Notes to the financial statements

for the year ended 31 December 2013

6. INCOME TAX EXPENSE

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

	2013	2012
	£000	£000
Current tax:		
Corporation tax	–	–
Overseas corporation tax/(recovery)	–	–
Total	<u>–</u>	<u>–</u>
	2013	2012
	£000	£000
Loss before tax	<u>(1,554)</u>	<u>(840)</u>
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 24% (2012: 24%)	(373)	(202)
Effects of:		
Non-deductible expenses	309	43
Other tax adjustments	64	159
Foreign tax	–	–
	<u>373</u>	<u>202</u>
Current tax charge	<u>–</u>	<u>–</u>

At 31 December 2013 the group had excess management expenses to carry forward of £1,127,730 (2012: £1,096,090) and trading losses of £1,564,940 (2012: £1,330,990). The deferred tax asset at 24% (2012: 24%) on these tax losses of £646,240 (2012: £582,499) 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 £2,325,140 (2012: £362,182).

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 warrants granted to directors and one former adviser.

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

	2013	2012
EPS – loss		
Loss attributable to ordinary shareholders (£000)	(1,554)	(840)
Weighted average number of shares	2,647,751,184	2,158,226,692
	<hr/>	<hr/>
Continued operations:		
Basic and diluted EPS – loss (pence)	(0.0059)	(0.039)
	<hr/> <hr/>	<hr/> <hr/>

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

	2013	2012
Gross profit before depreciation, depletion and amortisation	526	192
EPS on gross profit before depletion, depreciation and amortisation	0.020	0.009

	2013	2012
	£000	£000
Reconciliation from gross loss to gross profit before depletion, depreciation and amortisation		
Gross (loss)/profit	(450)	90
Add back:		
Depletion, depreciation and amortisation	976	102
	<hr/>	<hr/>
Gross profit before depreciation, depletion and amortisation	526	192
	<hr/>	<hr/>

Notes to the financial statements

for the year ended 31 December 2013

9. GOODWILL

Group	£000
COST	
At 1 January 2012	4,211
Additions	—
At 31 December 2012	4,211
Additions	—
At 31 December 2013	4,211
PROVISION	
At 1 January 2012	4,211
Charge for the year	—
At 31 December 2012	4,211
Charge for the year	—
At 31 December 2013	4,211
CARRYING VALUE	
At 31 December 2013	—
At 31 December 2012	—

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

10. OTHER INTANGIBLES

Group

	Licence	Exploration and evaluation assets	Development and production assets	Total
	£000	£000	£000	£000
COST				
At 1 January 2012	223	1,001	–	1,224
Additions	–	2,313	–	2,313
Disposals	–	–	–	–
Currency gain	(10)	(90)	–	(100)
At 31 December 2012	213	3,224	–	3,437
Additions	90	82	406	578
Transfer to development and production assets	–	(2,622)	2,622	–
Disposals	–	(105)	–	(105)
Currency	(1)	(81)	–	(82)
At 31 December 2013	302	498	3,028	3,828
PROVISION				
At 1 January 2012	–	(3)	–	(3)
Charge for the year	–	(41)	–	(41)
At 31 December 2012	–	44	–	44
Transfer to development and production assets	–	(44)	44	–
Charge for the year	–	–	806	806
Impairment	–	–	86	86
Currency	–	–	(46)	(46)
At 31 December 2013	–	–	890	890
CARRYING VALUE				
At 31 December 2013	302	498	2,138	2,938
At 31 December 2012	213	3,180	–	3,393

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 by reference to available engineering information. At the year end, the directors are of the opinion that an impairment of £85,953 should be provided.

Notes to the financial statements

for the year ended 31 December 2013

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant & equipment – oil and gas assets £000
COST	
At 1 January 2012	265
Dispositions	–
Additions	356
Currency loss	(49)
At 31 December 2012	<u>572</u>
Additions	116
Dispositions	–
Currency loss	(18)
At 31 December 2013	<u>670</u>
PROVISION	
At 1 January 2012	(45)
Charge for the year	(62)
Currency loss	3
At 31 December 2012	<u>(104)</u>
Charge for the year	(84)
Currency loss	7
At 31 December 2013	<u>(181)</u>
CARRYING VALUE	
At 31 December 2013	<u><u>489</u></u>
At 31 December 2012	<u><u>468</u></u>

12. FIXED ASSET INVESTMENTS

Company

	Investment in subsidiary £000	Loan to subsidiaries £000	Total £000
COST			
At 1 January 2012	4,409	4,511	8,920
Additions	–	1,962	1,962
At 31 December 2012	4,409	6,473	10,882
Net movement	–	(112)	(112)
At 31 December 2013	4,409	6,361	10,770
PROVISION			
At 1 January 2012	(4,409)	(560)	(4,969)
Charge for the year	–	–	–
At 31 December 2012	(4,409)	(560)	(4,969)
Charge for the year	–	(1,774)	(1,774)
At 31 December 2013	(4,409)	(2,334)	(6,743)
CARRYING VALUE			
At 31 December 2013	–	4,027	4,027
At 31 December 2012	–	5,913	5,913

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

Notes to the financial statements

for the year ended 31 December 2013

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Current:				
Other receivables	247	1,079	–	–
Other taxes receivables	6	10	6	7
	<u>253</u>	<u>1,089</u>	<u>6</u>	<u>7</u>

Other receivables include £222,930 due from Richfield as reported in previous years. This was received in full after the year end.

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

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Bank current accounts	<u>371</u>	<u>309</u>	<u>30</u>	<u>12</u>

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Current:				
Trade payables	251	249	–	–
Accruals and deferred income	47	59	47	44
Director's loan account	–	503	–	503
Decommissioning liability	31	–	–	–
Other taxes payable	7	4	–	–
	<u>336</u>	<u>815</u>	<u>47</u>	<u>547</u>

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	
	2013 £000	2012 £000	2013 £000	2012 £000
Current:				
Repayable within one year:				
Other loans	–	246	–	246
Loan notes	344	352	–	–
	<u>344</u>	<u>598</u>	<u>–</u>	<u>246</u>

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.

Notes to the financial statements

for the year ended 31 December 2013

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:	2013 £000	2012 £000
2,776 million (2012 – 2,500 million)	Ordinary	0.1p	2,776	2,500

Allotted, called up and fully paid:

Number:	Class:	Nominal value:	2013 £000	2012 £000
2,776,211,610 / 2,465,165,314	Ordinary	0.1p	2,776	2,465

18. RESERVES

Group	Translation reserve £000	Retained losses £000	Share premium £000	Total £000
At 1 January 2012	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
Shares issued in the year	–	–	942	942
Share issue cost	–	–	(55)	(55)
Loss for the year	–	(1,554)	–	(1,554)
Foreign exchange translation	102	–	–	102
At 31 December 2013	74	(9,299)	9,991	766
Company		Retained losses £000	Share premium £000	Total £000
At 1 January 2012		(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
Shares issued in the year		–	942	942
Share issue cost		–	(55)	(55)
Loss for the year		(2,325)	–	(2,325)
At 31 December 2013		(8,870)	9,991	1,121

Notes to the financial statements

for the year ended 31 December 2013

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	
	2013	2012	2013	2012
	£	£	£	£
United States Dollars (US\$)	0.6395	0.6185	0.6040	0.6185

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:

	2013	2012
Per barrel – US\$	105.48	101.17
Per barrel – £	63.84	62.57

Liquidity risk

The group expects to fund its exploration and development programme, as well as its administrative and operating expenses throughout 2014, principally using existing working capital and expected proceeds from the sale of future crude oil production. The group had a bank balance of approximately £371,000 at 31 December 2013.

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.

Notes to the financial statements

for the year ended 31 December 2013

21. RELATED PARTY TRANSACTIONS

Group

As disclosed last year £502,750 of shares were advanced to the group by Matt Lofgran to be held in escrow by Yorkville (YA Global) on behalf of New Horizons One LLC. On 4 October 2013 this was settled by the transfer of 83,956,296 shares to Matt Lofgran by YA Global. Also on that date Matt Lofgran gifted 6,000,000 shares to a family member.

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:

	2013		2012	
	Balance	Loan advance/repayment	Balance	Loan advance/repayment
	£000	£000	£000	£000
New Horizon Energy 1 LLC	5,539	(67)	5,606	1,955
Goldhawk Oil & Gas, LLC	815	(46)	861	–
Churchill Operating, LLC	–	–	–	–
Nostra Terra (Overseas) Limited	7	–	7	–
Totals	6,361	136	6,474	1,955

The intercompany loans are unsecured and interest-free.

22. SHARE-BASED PAYMENTS

No new options were issued in 2013. The vesting of options is linked to barrels of oil equivalent produced daily ("boepd"). Existing options are settled in equity. A share based payment charge of £4,329 (2012:£115,160) arose in relation to options in existence at 31 December 2013.

The details of options and warrants are as follows:

Date of grant	Granted	Exercised/ vested	Forfeits	At 31.12.13	Exercise price	Exercise/vesting date From	To
Warrants							
22/06/2010	10,000,000	–	–	10,000,000	0.52	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	–	(50,000,000)	120,000,000	0.47	19/07/2012	19/07/2017

The total options and warrants outstanding at 31 December 2013 and 31 December 2012 are as follows:

Total at 31.12.13 174,333,333

Total at 31.12.12 224,333,333

The numbers of options outstanding to the directors at 31 December 2013 were as follows:

Director	Warrants		Options		Total	
	2013	2012	2013	2012	2013	2012
M B Lofgran	–	–	64,000,000	84,000,000	64,000,000	84,000,000
A B McCall	10,000,000	10,000,000	84,000,000	114,000,000	94,000,000	124,000,000
S V Oakes	3,000,000	3,000,000	6,000,000	6,000,000	9,000,000	9,000,000
Sir Adrian Blennerhassett	–	–	4,000,000	4,000,000	4,000,000	4,000,000
Totals	13,000,000	13,000,000	158,000,000	208,000,000	171,000,000	221,000,000
Other third party holdings	3,333,333	3,333,333	–	–	3,333,333	3,333,333

Notes to the financial statements

for the year ended 31 December 2013

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
Share price at grant date	0.47p	0.44p	0.68p	0.5p	0.47p
Exercise price	0.46p	0.41	0.6p	0.37p	0.52p
Option life in years	3.5 years	3.5 years	3 years	3 years	5 years
Risk free rate	0.69%	0.60%	4.3%	4.3%	3.5%
Expected volatility	50%	50%	30%	30%	10%
Expected dividend yield	0%	0%	0%	0%	0%
Fair value of option/warrant	0.12p	0.14p	0.12p	0.23p	0p

23. CONTINGENT LIABILITIES AND GUARANTEES

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

24. ULTIMATE CONTROLLING PARTY

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

25. EVENTS AFTER THE REPORTING PERIOD

On 3 February 2014 Nostra Terra entered into a US\$25 million credit facility ("Facility") with Texas Capital Bank ("Bank"). The new Facility contains both a three year Revolving Credit Facility and a Standby Letter of Credit Facility with an initial nominal limit of US\$25 million. Interest is charged on monies drawn down at the current rate of 4.25% (determined by the higher of either: the sum of the Wall Street Journal Rate plus 1% or 4.25%). The current borrowing base is US\$1.1 million.

Nostra Terra

OIL & GAS COMPANY PLC