Nostra Terra

OIL & GAS COMPANY PLC

ANNUAL REPORT AND ACCOUNTS 2015

Contents

Highlights

- Revenue for the period of £594,000 (2014: £1,267,000)
- Gross profit for the period of £385,000 before depletion, depreciation and amortisation (2014: £997,000)
- 81% increase in net production to 64,063 BOE (29,678 US, 34,385 Egypt) compared to 2014: 35,380, primarily due to expansion into Egypt
- Ewen Ainsworth joined the board as Chairman
- Farm-in to Paw Paw prospect with Koch Exploration where NTOG will operate 2,440 net acres in Wyoming
- Acquired a 25% interest in the East Ghazalat concession in Egypt operated by North Petroleum International Company (NPIC)
- Approval of Exploration Unit for Paw Paw prospect
- Obtained a three year extension of the $25 million lending facility until 31 January 2019

Post Balance Sheet Highlights

- Joint venture between Nostra Terra (NTOG) and Independent Resources (IRG) announced a breach in the joint venture agreement by North Petroleum International Company (NPIC)
- Raised £350,000 via a placing of new shares
- Proposal to acquire 60% interest in producing assets in the Permian basin in New Mexico
- Reorganisation of its share capital
- Cost cutting initiative complete achieving a 40% reduction in overheads
- Sale of Chisholm Trail prospect for $2.1 million

Company Information

Directors
Ewen Ainsworth (Non-Executive Chairman)
Matt Lofgran (Chief Executive 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 and broker
Strand Hanson Limited
26 Mount Row
London W1K 3SQ

Broker
Cornhill Capital Limited
4th Floor, 18 St. Swithin's Lane
London EC1V 9EE

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
The Courtyard
17 West Street
Farnham
Surrey GU9 7DR

Website
www.ntog.co.uk

Chairman's Report

The oil industry continues to wrestle with the persistently lower oil price environment. The bear market has hurt the entire sector and led to a re-evaluation of strategy by many companies. At Nostra Terra we have taken steps to act early in response to such challenging conditions, seeking to restructure and reposition the business. This has involved making some difficult decisions and we would like to thank our shareholders for their continued support, in particular for voting in favour of the consolidation and capital reorganisation at the recent Extraordinary General Meeting. This was not a proposal we made lightly, but we remain convinced it will be in the long term best interests of the Company.

Our strategic goals have been twofold in repositioning Nostra Terra. First we had to ensure the Company survives this extremely difficult period and second our key aim is to deliver significant value to shareholders over the medium term. We remain confident the Company's renewed strategic focus on the acquisition of distressed assets will yield substantial results.

The success of the previous business model was reliant on modern exploration technology such as hydraulic fracturing and much higher oil prices, which allowed the Company to recover investment capital and generate a return. High initial production rates were also an important factor. However, such initial high levels of production declined significantly within a relatively short period, a feature of using hydraulic fracturing in the reservoirs targeted by the Company, which, combined with a rapid decline in the oil price, had an adverse effect on the Company's revenue stream. The declining oil price also made it uneconomic to drill new wells to offset diminishing production.

Our new strategy at Nostra Terra is predicated upon the macro-adjustment within the entire industry, caused by the decline in the price of oil. Our focus is to build a business which at $30/bbl is cash neutral and reliant on more conventional oil with lower decline rates in production. At oil prices above $30/bbl Nostra Terra will then have the internally generated funds to invest in either organic growth within its producing oil field(s) or pursue new investment opportunities.

In order to identify suitable opportunities for Nostra Terra we have extended our geographical focus, with the aim of having up to two focus areas outside of the USA.

Following a prolonged period of low prices, we have noted a sizeable recent increase in the quantity and caliber of oil & gas assets available for sale at distressed prices. This presents a rare opportunity for Nostra Terra to take advantage of. Now that we have repositioned the business we feel the Company is well placed to deliver its refocussed growth strategy over the coming years.

The foundation of our new growth strategy is based on the recently announced cost cutting initiative, which we completed. During mid-2015 Nostra Terra started to cut back spending in anticipation of further pressure on the oil price during the course of 2016. So far this decision has been vindicated and the Company now benefits from an overall reduction of 40% in overheads at a time when the industry remains subdued. A core component of the cost-cutting initiative has been for the Board to take a voluntary 25% pay cut. In light of ongoing weakness in the oil & gas market, which has caused significant declines in share prices across the sector, the Board strongly felt that this was an appropriate step to take.

With Nostra Terra now better positioned to withstand current market conditions, albeit with a lot of work still to be done, the Board remains fully committed to securing new projects for the Company, and to create shareholder value over the medium term. As Nostra Terra delivers its new growth strategy the Company plans to bolster its team with the addition of suitably experienced and astute technical personnel. This will only become necessary as we introduce additional producing assets to the business.

I would like to thank the Company's shareholders for their continued support and the next time I write to you I hope to report meaningful progress on the Company's strategy and on the appointment of new non-executive and/or executive management personnel.

Ewen Ainsworth
Chairman

29 June 2016

Chief Executive Officer's Report

As Ewen has stated in his Chairman's Report, we are experiencing the worst market in our sector for at least thirty years. Over the last 12 months our share price has suffered as Brent declined from $56.81 at the start of the year, dropping to $27 and closed at $37.50 by the end of the year. In the face of extreme adverse conditions we have worked tirelessly on behalf of Nostra, making a number of tough choices for the long-term good of the company. This has not been easy, but I am pleased to report we are starting to reap the benefits.

Overall this has been an extremely busy year for Nostra. As it became clear the industry would have to adapt to a significantly lower oil price environment, we recognized how vital it was to reposition the business. We initiated a cost cutting initiative in mid-2015, achieving an overall reduction of 40% in overheads, as recently announced. We also sought to restructure our board and management team to reflect Nostra's needs going forward.

On a personal note, I'm very happy to have welcomed Ewen as our new Chairman to the team. Since his appointment, Ewen's input into reformulating Nostra's strategy has been crucial and I am certain he will play an extremely important role in the Company in the years to come.

Rather than simply attempt to weather the storm, we decided to take advantage of a new oil price cycle. This involved adopting a new strategic focus, seeking to acquire producing or lower risk assets at distressed prices, which Nostra could take full operational control of. We expanded our global view, looking to enter into new geographical areas outside of the United States, and sought opportunities that presented large upside potential for relatively small initial consideration.

We started our new strategy through identifying an opportunity in Southern Texas with intriguing potential. We acquired a minor interest in two different prospects for a minimal amount of consideration. These had large acreage positions with scope to increase our working interest should results prove up. Ultimately we decided not to proceed with the prospect, but this marked the beginning of Nostra's new approach.

Having acquired the White Buffalo prospect in the Big Horn Basin of Wyoming in late 2014, in 2015 we signed an agreement with Koch Exploration, a subsidiary of Koch Industries, to operate the Paw Paw prospect located in the same basin. The structure of the agreement allowed Nostra Terra the ability to control a prospect with a large potential reserve. While no consideration was paid for this we have worked to create an Exploration Unit over the prospective leases along with permitting for the initial well. We were able to extend the agreements into 2016 where Nostra Terra will seek partners to participate in the prospect.

During the second half of 2015 we expanded into Egypt by acquiring a 25% interest in the East Ghazalat concession in the Western Desert of Egypt. The seller agreed to finance a large portion of the acquisition leaving Nostra with a $500,000 equity investment to close the acquisition of this producing asset. Nostra and its other minority partner are currently in dispute with the operator over costs but are working with the operator to reduce operating costs in order to improve the economics on existing wells. There's scope for further upside in development and exploration wells including the discoveries in the North Dabaa.

On the financial side of the business conditions have been tough. We doubled production into the turn of 2015 and increased it by 81% by the end of the year. Revenue decreased to £594,000 primarily due to the drop of oil prices and natural production declines in wells, achieving a gross profit for the period before depletion, depreciation and amortization costs of £385,000. Our expectation had been this would put the company on a much firmer financial footing, but the sharp decline in the price of oil undid much of the good work we had completed previously. Despite this, at the end of 2015 Nostra was granted a 3-year extension to its $25 million Credit Facility with Texas Capital Bank with drawdown subject to production. This was particularly encouraging, given the number of companies whose business models failed over the period through being unable to secure refinancing terms on lending facilities.

Moving into 2016 we continue to generate revenue from our existing assets, in particular Chisholm Trail, Bale Creek, and Verde. Multiple wells exist on each prospect thus creating a portfolio where the Company isn't risked on a single well or operator. As some of these fields develop further we will look to reinvest capital in fields at an earlier stage in the cycle where further upside exists.

As announced on 29 June 2016, Nostra decided to sell an interest in a Chisholm Trail prospect for $2.1 million providing the opportunity to redeploy funds to assets where we have a larger interest and more control over the pace of growth.

I would like to finish by offering a personal message of thanks to our shareholders. This has been an extremely difficult period for the company. As the largest private holder of shares in Nostra I've suffered the effects of the falling share price alongside shareholders. However, we do live to fight another day. My fellow directors and I have made a number of extremely difficult decisions for the long term good of the company and I am confident we will turn the business around as conditions improve in the market. Our new strategy is both ambitious and built on a solid foundation and I look forward to providing more positive updates as we deliver on our objectives.

Matt Lofgran
Chief Operating Officer

29 June 2016

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 2015.

Principal activity

The group's principal activity is the exploitation of hydrocarbon resources focusing at present in the US mid-continent and Egypt.

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 13 to 22, and are noted in the Chairman's Report on page 3 and the Chief Executive Officer's Review on page 4.

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 2015 rose to 64,063 BOE (29,678 US, 34,385 Egypt) compared to 2014: 35,380 as noted on page 4.

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 20 to these accounts.

On behalf of the board:

M B Lofgran
Director

29 June 2016

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 2015.

Directors
The following directors have held office since 1 January 2015:
M B Lofgran, S V Oakes , A M Blennerhassett (resigned June 2015)

The following directors have held office since 24 June 2015:
K E Ainsworth

Kristian Ewen Ainsworth will retire at the company's forthcoming Annual General Meeting under the company's Articles of Association and, being eligible, offers himself for re-election.

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

	Salaries £	Fees £	Share-based compensation £	Total £
K E Ainsworth	–	8,333	3,887	12,220
A M Blennerhassett	–	–	–	–
M B Lofgran	127,608	–	7,033	134,641
S V Oakes	–	24,000	1,758	25,758
A B McCall	98,160	–	7,033	105,193
	225,768	32,333	19,711	277,812

The directors' remuneration for the year ended 31 December 2014 is summarised as follows:

	Salaries £	Fees £	Share-based compensation £	Total £
A M Blennerhassett	–	–	–	–
M B Lofgran	118,404	–	8,035	126,439
S V Oakes	–	24,000	2,009	26,009
A B McCall	109,296	–	8,035	117,331
	227,700	24,000	18,079	269,779

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

More detail on the Share options issued to Directors' during the year are disclosed within the share based payment note together with the outstanding options and warrants at the year end, please refer to note 22.

At 31 December 2015, the directors' beneficial interests in the company's issued share capital were as follows:

	31.12.15		31.12.14	
	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
K E Ainsworth	180,000	0.22	–	–
M B Lofgran	4,375,976	5.32	4,375,976	7.88
S V Oakes	283,333	0.34	283,333	0.51

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 reported in note 25, on 31 May 2016 the company effected a capital reorganisation. Shareholdings held by directors at the year end, quoted above, shown as at the dates as noted have been adjusted to reflect this reorganisation. The holdings below are quoted post reorganisation and reflect the effect of the resulting share reorganisation.

As at 16 June 2016, 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
JIM Nominees Limited	9,429,885	11.47
TD Direct Investing Nominees (Europe) Limited	8,511,276	10.35
Barclayshare Nominees Limited	8,371,768	10.18
HSDL Nominees Limited	7,669,346	9.33
Kayne Anderson Energy Fund	5,642,867	6.86
M B Lofgran	4,375.976	5.32
HSBC Client Holdings Nominee (UK) Limited	3,746,541	4.56
Investor Nominees Limited	3,338,511	4.06
Hargreaves Lansdown (Nominees) Limited	2,524,713	3.07

Results and dividends

The loss for the year was £1,842,000, which has been allocated against reserves. No dividends will be distributed for the year ended 31 December 2015.

Political and charitable contributions

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

Events after the reporting period

Refer to note 26 for details.

Publication of accounts on company website

The company publishes financial statements on its website. The directors are responsible for the website's maintenance and integrity, and their responsibility also extends to the financial statements contained therein.

Indemnity of officers

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

Financial instruments

The group does not have formal policies on interest rate risk or foreign currency risk. The group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than pounds sterling (£). The group maintains a natural hedge that minimises its foreign exchange exposure by matching foreign currency income with foreign currency costs. For the time being, the group does not consider it necessary to enter into foreign exchange contracts to manage its foreign currency risk, given the nature of its business.

Listing

The company's ordinary shares have traded on London's Alternative Investment Market since 20 July 2007. Northland Capital Partners Limited was the company's nominated advisor and Hume Capital Securities plc was the company's sole broker until 31 March 2016. On 31 March 2015, the company announced the appointment of Sanlam Securities UK Limited as nominated advisor and broker. On 4 March 2016, the company announced the appointment of Cornhill Capital Limited as broker. On 15 March 2016, the company announced the appointment of Strand Hanson Limited as nominated advisor and broker.

The closing mid-market price at 31 December 2015, adjusted for the capital reorganisation, was 4.24p (2014: 11.68p).

Going concern

The Directors believe that based on the forecasts and projections they have prepared, the resources available will be sufficient for the Company and its subsidiaries to continue as a going concern for the foreseeable future when taking into account proceeds generated from production, potential asset sale(s), farm-out(s) of its oil interests and/or equity placing and/or financing facility as described more fully in note1 of the accounts.

The Directors have concluded that this combination of circumstances should they not materialise represents uncertainty upon the Company's ability to continue as a going concern. Nevertheless after making enquiries, and considering the uncertainties described above, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Directors' Report continued

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 Jeffreys Henry LLP be reappointed as auditors of the company will be put to the Annual General Meeting.

On behalf of the board:

M B Lofgran
Director

29 June 2016

Corporate Governance Report

The board has sought to comply with a number of the provisions of the Code in so far as it considers them to be appropriate for a company of their size and nature. They make no statement of compliance with the Code overall and do not 'explain' in detail any aspect of the Code with which they do not comply.'

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 Ewen Ainsworth as Chairman, and S V Oakes. Both have considerable and relevant financial experience.

The Audit Committee has terms of reference agreed by the board and meets at least twice a year. The committee provides an opportunity for reporting by the company's auditors, and is responsible for:

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

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

Remuneration and Nomination Committees
The Remuneration and Nomination Committees, which meet at least twice a year, consist of Ewen Ainsworth 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 inter alia improve information flow to shareholders and potential investors. It contains inter alia 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

EWEN AINSWORTH
Non-Executive Chairman

Ewen Ainsworth (54) is a chartered management accountant and a fellow of the Institute of Petroleum who brings wide industry experience to his new role. He has worked in the industry for 27 years at various stages of the oil and gas life cycle from exploration to appraisal/development, production and de-commissioning.

Starting his career in the late 1980's at Conoco, Mr Ainsworth's career has included Financial Controller, Financial Director and CFO roles across various public and private companies, including six years as Financial Director of Gulf Keystone Petroleum Limited until 2014. He is currently CFO of CAP Energy Plc. In his career he has been involved in companies with assets and operations across the UK, Europe, Russia, Azerbaijan, Iraq and North and West Africa.

MATT LOFGRAN
Chief Executive Officer

Matt Lofgran (40) 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. Mr Lofgran is also a Director of Elephant Oil Limited and Atlas Oil & Gas Limited.

STEPHEN VAUGHAN OAKES
Non-Executive Director

Stephen Oakes (60) 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

The shareholders
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 2015, 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, and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Basis for qualified opinion on financial statements

The scope of our work was limited as a result of the following matter. As disclosed in Notes 13 and 26 a dispute has arisen in relation to the operation of the joint venture arrangements relating to the group's 50 per cent working interest in the East Ghazalat production licence, held through Independent Resources (Egypt) Limited, and in which the group holds a 50 per cent interest (the 'Joint Venture'). After the reporting period the Joint Venture was served with notice of default in relation to cash calls raised by North Petroleum International S.A. ("North Petroleum") the operator of East Ghazalat. The Joint Venture has rebutted the claims from North Petroleum but the current breakdown in relations has meant that operator North Petroleum has been unwilling to furnish financial information to allow a proper determination of licence costs and an audit of licence revenues to be completed. In addition, the quantum of a vendor loan note of $2.5 million issued by the Joint Venture as partial consideration for the transaction remains subject to final determination in accordance with the sale and purchase agreement. As a consequence of the lack of access to primary accounting records we have been unable to obtain sufficient appropriate audit evidence in relation to the group and company financial statements concerning:

- the carrying value of £189,619 of the group's investments in equity-accounted joint ventures as at 31 December 2015;
- the initial cost of £346,604 of the company's investments in equity accounted joint ventures as at 31 December 2015;
- the quantum of the loan note principal of $2.5 million and interest accrued theron by the Joint Venture at 31 December 2015; and
- the group's share of any profit or loss attributable to the group's underlying interests in the East Ghazalat licence for the period from 1 July 2015 to 31 December 2015.

Qualified opinion on financial statements

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements:

- 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 2015 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.

Independent Auditors' Report continued

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 BA FCA
SENIOR STATUTORY AUDITOR
For and on behalf of Jeffreys Henry LLP, Statutory Auditor

Finsgate
5-7 Cranwood Street
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United Kingdom

29 June 2016

Consolidated Income Statement

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Revenue		594	1,267
Cost of sales			
Production costs		(209)	(268)
Exploration and appraisal		–	(2)
Depletion, depreciation, amortisation		(1,700)	(1,396)
Total cost of sales		(1,909)	(1,666)
GROSS PROFIT/(LOSS)		(1,315)	(399)
Share based payment		(27)	(19)
Administrative expenses		(689)	(318)
Share of results of joint venture	13	(157)	–
OPERATING LOSS	5	(2,188)	(736)
Finance expense	4	(122)	(107)
LOSS BEFORE TAX		**(2,310)**	**(843)**
Tax (expense) recovery	6	–	–
LOSS FOR THE YEAR		**(2,310)**	**(843)**
Attributable to:			
Owners of the company		**(2,310)**	**(843)**
Earnings per share expressed in pence per share:			
Continued operations			
Basic and diluted (pence)	8	(0.069)	(0.029)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015

	2015 £000	2014 £000
Loss for the year	(2,310)	(843)
Other comprehensive income:		
Currency translation differences	111	(249)
Total comprehensive income for the year	(2,199)	(1,092)
Total comprehensive income attributable to:		
Owners of the company	(2,199)	(1,092)

Consolidated Statement of Changes in Equity

for the year ended 31 December 2015

	Share capital £000	Share premium £000	Share options reserve £000	Translation reserves £000	Retained losses £000	Total £000
As at 1 January 2014	**2,776**	**9,991**	**119**	**74**	**(9,299)**	**3,661**
Shares issued	584	1,166	–	–	–	1,750
Share issue costs	–	(97)	–	–	–	(97)
Foreign exchange translation	–	–	–	(249)	–	(249)
Loss after tax for the year	–	–	–	–	(843)	(843)
Share based payments	–	–	19	–	–	19
As at 31 December 2014	**3,360**	**11,060**	**138**	**(175)**	**(10,142)**	**4,241**
Shares issued	–	–	–	–	–	–
Share issue costs	–	–	–	–	–	–
Foreign exchange translation	–	–	–	111	–	111
Loss after tax for the year	–	–	–	–	(2,310)	(2,310)
Share based payments	–	–	27	–	–	27
As at 31 December 2015	**3,360**	**11,060**	**165**	**(64)**	**(12,452)**	**2,069**

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 2015

	Share capital £000	Share premium £000	Share options reserve £000	Retained losses £000	Total £000
As at 1 January 2014	**2,776**	**9,991**	**119**	**(8,870)**	**4,016**
Shares issued	584	1,166	–	–	1,750
Share issue costs	–	(97)	–	–	(97)
Loss after tax for the year	–	–	–	(1,058)	(1,058)
Share based payments	–	–	19	–	19
As at 31 December 2014	**3,360**	**11,060**	**138**	**(9,928)**	**4,630**
Shares issued	–	–	–	–	–
Share issue costs	–	–	–	–	–
Loss after tax for the year	–	–	–	(1,650)	(1,650)
Share based payments	–	–	27	–	27
As at 31 December 2015	**3,360**	**11,060**	**165**	**(11,578)**	**3,007**

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 2015

	Notes	2015 £000	2014 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	9	–	–
Other intangibles	10	3,127	4,283
Property, plant and equipment			
– oil and gas assets	11	464	521
Investment in joint venture	13	190	–
		3,781	4,804
CURRENT ASSETS			
Trade and other receivables	14	171	491
Other debtors		5	–
Cash and cash equivalents	15	144	861
		320	1,352
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	373	293
Borrowings	17	1,308	1,010
		1,681	1,303
NET CURRENT ASSETS		(1,361)	49
NON-CURRENT LIABILITIES			
Borrowings	17	351	612
NET ASSETS		2,069	4,241
EQUITY AND RESERVES			
Called up share capital	18	3,360	3,360
Share premium	19	11,060	11,060
Translation reserves	19	(64)	(175)
Share option reserve	23	165	138
Retained losses	19	(12,452)	(10,142)
		2,069	4,241

The financial statements were approved and authorised for issue by the Board of Directors on 29 June 2016 and were signed on its behalf by:

M B Lofgran
Director

Company registered number: 05338258

Company Statement of Financial Position

31 December 2015

	Notes	2015 £000	2014 £000
ASSETS			
NON-CURRENT ASSETS			
Fixed asset investments	12	2,836	4,124
Investment in joint venture		190	–
		3,026	4,124
CURRENT ASSETS			
Trade and other receivables	14	14	19
Cash and cash equivalents	15	69	552
		83	571
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	102	65
		102	65
NET CURRENT ASSETS		(24)	506
NET ASSETS		3,007	4,630
EQUITY AND RESERVES			
Called up share capital	18	3,360	3,360
Share premium	19	11,060	11,060
Share option reserve	23	165	138
Retained losses	19	(11,578)	(9,928)
		3,007	4,630

The financial statements were approved and authorised for issue by the Board of Directors on 29 June 2016 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 2015

	Notes	2015 £000	2014 £000
Cash flows from operating activities			
Cash generated/(consumed) by operations	1	57	222
Interest paid		(115)	(163)
Cash generated/(consumed) by operations		(58)	59
Cash flows from investing activities			
Purchase of intangibles – new oil properties		(276)	(2,527)
Sale/(purchases) of plant and equipment		(25)	(245)
Proceeds from sale of assets		–	295
Purchase of equity in joint venture investment		(347)	–
Net cash from investing activities		(648)	(2,477)
Cash flows from financing activities			
Proceeds on issue of shares		–	1,653
New borrowing		1,156	2,221
Repayment of borrowings		(1,162)	(966)
Net cash from financing activities		(6)	2,908
Effect of exchange rate changes on cash and cash equivalents		(5)	–
Increase/(decrease) in cash and cash equivalents		(717)	490
Cash and cash equivalents at the beginning of the year	14	861	371
Cash and cash equivalents at the end of the year		144	861
Represented by:			
Cash at bank	14	144	861

Note to the Consolidated Statement of Cash Flows

for the year ended 31 December 2015

1. RECONCILIATION OF OPERATING LOSS TO NET CASH GENERATED FROM OPERATIONS

	2015 £000	2014 £000
Loss for the year	(2,188)	(736)
Adjustments for:		
Depreciation of property, plant, and equipment	103	127
Amortisation of intangibles	1,026	577
Well impairment	571	–
Share of results of joint venture	157	–
Loss on disposal of assets	–	691
Share based payment	27	19
Foreign exchange loss/(gains) non-cash items	–	(521)
Operating cash flows before movements in working capital	(304)	57
(Decrease)/increase in finance charge provision	(15)	56
(Increase)/decrease in receivables	310	52
(Decrease)/increase in payables	34	(43)
(Increase)/decrease in deposits and prepayments	32	–
Cash generated/(consumed) by operations	57	222

Company Statement of Cash Flows

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Cash generated/(consumed) by operations	1	(161)	733
Net cash from operating activities		(161)	733
Cash flows from investing activities			
Interest received		–	–
Net cash from investing activities		–	–
Cash flows from financing activities			
Inter group loan (advances)		(322)	(1,864)
Issue of new shares		–	1,653
Net cash from financing activities		(322)	(211)
Increase/(decrease) in cash and cash equivalents		(483)	522
Cash and cash equivalents at the beginning of the year	14	552	30
Cash and cash equivalents at the end of the year		69	552
Represented by:			
Cash at bank	14	69	552

Note to the Company Statement of Cash Flows

for the year ended 31 December 2015

1. RECONCILIATION OF OPERATING LOSS TO NET CASH GENERATED FROM OPERATIONS

	Notes	2015 £000	2014 £000
Loss for the year		(1,650)	(1,058)
Adjustments for:			
Impairment of cost of investments		1,277	1,289
Share of results of joint venture		(157)	–
Share based payment		27	478
Foreign exchange loss/(gain) non-cash items		300	19
Operating cash flows before movements in working capital		(203)	728
(Increase)/decrease in receivables		5	(13)
(Decrease)/increase in payables		37	18
Cash generated (consumed) by operations		(161)	733

Notes to the Financial Statements

for the year ended 31 December 2015

GENERAL INFORMATION

Nostra Terra Oil and Gas Company plc (Nostra Terra) 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 2015, 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 and amended IFRSs have been adopted during the year.

- Annual Improvements to IFRS 2011-2013 Cycle
- IFRIC interpretation 21 Levies

There were no material changes in the financial statements as a result of adopting new or revised accounting standards during the year.

Notes to the Financial Statements

for the year ended 31 December 2015

1. ACCOUNTING POLICIES continued

The following new and amended IFRSs have been adopted during the year.

• Annual Improvements to IFRS 2011-2013 Cycle
• IFRIC interpretation 21 Levies

There were no material changes in the financial statements as a result of adopting new or revised accounting standards during the year.

The Group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are not yet effective. The new pronouncements are listed below:

• IFRS 9 Financial Instruments (IASB effective 1 January 2018; not yet adopted by EU)
• IFRS 14 Regulatory Deferral Accounts (IASB effective 1 January 2016; not yet adopted by EU)
• IFRS 15 Revenue from Contracts with Customers including amendments and clarifications (IASB effective 1 January 2018; not yet adopted by EU)
• IFRS 16 Leases (IASB effective 1 January 2019; not yet adopted by EU)
• Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (IASB effective date 1 January 2016; not yet adopted by EU)
• Amendments to IFRS 10 and 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IASB effective 1 January 2016; not yet adopted by EU)
• Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (IASB effective 1 January 2017; not yet adopted by EU)
• Amendments to IAS 7 Disclosure Initiative (IASB effective 1 January 2017; not yet adopted by EU).
• Amendments to IAS 27: Equity Method in Separate Financial Statements (effective 1 January 2016)
• Amendments to IAS 1 Disclosure Initiative (effective 1 January 2016)
• Annual Improvements to IFRS's: 2012 - 2014 Cycle (effective 1 January 2016)
• Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)
• Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective 1 January 2016)
• Amendments to IAS 16 and 41: Bearer Plants (effective 1 January 2016)
• Amendments to IAS 19: Defined Benefit Plans: Employee Contributions (effective 1 February 2015)
• Annual Improvements to IFRS's: 2010 - 2012 Cycle (effective 1 February 2015)

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material effect on the financial statements of 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 Venture
Investment in entities which constitute a joint venture in accordance with the definition in International Accounting Standard no. 28 Investments in Associates are accounted for using the equity method, with the group's share of profits or losses being adjusted against the original cost of the investment on an annual basis.

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.

Notes to the Financial Statements
for the year ended 31 December 2015

1. ACCOUNTING POLICIES continued

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
(c) income and expenses are translated at the rate on the dates of the transactions); and
(d) 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 nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

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

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

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

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

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

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

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

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.

Notes to the Financial Statements

for the year ended 31 December 2015

1. ACCOUNTING POLICIES continued

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.

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 2015

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.

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

(i) 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;
(ii) Colorado: 16.25% working interest in the Verde Prospect Unit;
(iii) Oklahoma: 30% working interest in the Bale Creek Prospect Unit;
(iv) Oklahoma: 20% interest (varied working interest) in the Chisholm Trail Project.
(v) Wyoming: 100% working interest in the White Buffalo Prospect

Egypt properties at year end included the following:

(i) Egypt: 25% interest in the East Ghazalat concession

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

	US mid-continent 2015 £000	Head office 2015 £000	Total 2015 £000
Segment results – 2015			
Revenue	594	–	594
Operating loss before depreciation, amortisation share-based payment charges and restructuring costs:	(181)	(123)	(304)
Depreciation of tangibles	(103)	–	(103)
Amortisation of intangibles	(1,026)	–	(1,026)
Well impairment	(571)	–	(571)
Share of results of joint venture	–	(157)	(157)
Share based payment	–	(27)	(27)
Operating loss	(1,881)	(307)	(2,188)
Realised exchange (loss)/gain	–	–	–
Tax	(122)	–	(122)
Gain (loss) before taxation	(2,003)	(307)	(2,310)
Segment assets			
Property, plant and equipment	464	–	464
Intangible assets	3,127	–	3,127
Cash and cash equivalents	75	69	144
Other assets	352	14	523
	4,018	83	4,101

3. EMPLOYEES AND DIRECTORS

	2015 £000	2014 £000
Directors' fees	32	24
Directors' remuneration	226	228
Social security costs	13	15
	271	267

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

	2015 Number	2014 Number
Directors	4	4
	4	4

Directors' remuneration
Other than the directors, the group had no other employees. Total remuneration paid to directors during the year was as listed above.

The highest paid director's emoluments and other benefits for the years ended 31 December 2015 is as listed below:

	2015 £000	2014 £000
M B Lofgran	129	126

4. FINANCE INCOME/EXPENSE

For the years ended 31 December:	2015 £000	2014 £000
On bank balance	–	–
On other receivables	–	–
Finance Expense	(122)	(107)
	(122)	(107)

Notes to the Financial Statements

for the year ended 31 December 2015

5. OPERATING LOSS FOR THE YEAR

The operating loss for the years ended 31 December is stated after charging/(crediting):

	2015 £000	2014 £000
Auditors' remuneration (company £21,000 – 2014: £21,000)	21	21
Depreciation of property, plant and equipment	103	127
Amortisation of intangibles	1,026	577
Foreign exchange differences	–	480
Loss on the disposal of exploration and evaluation and oil and gas assets	–	691

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

	2015 £000	2014 £000
Directors' remuneration	226	228
Social security costs	13	15
Directors' fees	32	24
Travelling and entertaining	55	74
Accountancy fees	55	149
Legal and professional fees	214	180
Auditors' remuneration	21	21
Foreign exchange differences	(6)	(480)
Other expenses	78	107
	689	318

6. INCOME TAX EXPENSE

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

	2015 £000	2014 £000
Current tax:		
Corporation tax	–	–
Overseas corporation tax/(recovery)	–	–
Total	–	–

	2015 £000	2014 £000
Loss before tax	(2,310)	(843)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20% (2014: 20%)	(462)	(167)
Effects of:		
Non-deductible expenses	–	–
Other tax adjustments	462	167
Foreign tax	–	–
	462	167
Current tax charge	–	–

At 31 December 2015 the group had excess management expenses to carry forward of £1,308,750 (2014: £1,108,870) and trading losses of £2,158,000 (2014: £2,158,000). The deferred tax asset at 20% (2014: 20%) on these tax losses of £693,000 (2014: £653,000) 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 £1,654,865 (2014: £1,058,124).

Notes to the Financial Statements

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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:

	2015	2014
EPS – loss		
Loss attributable to ordinary shareholders (£000)	(2,310)	(843)
Weighted average number of shares	3,359,587,276	2,922,053,277
Continued operations:		
Basic and diluted EPS – loss (pence)	**(0.069)**	**(0.029)**

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

	2015 £000	2014 £000
Gross profit before depreciation, depletion and amortisation	385	997
EPS on gross profit before depletion, depreciation and amortisation (pence)	0.011	0.034

	2015 £000	2014 £000
Reconciliation from gross loss to gross profit before depletion, depreciation and amortisation		
Gross (loss)/profit	(1,315)	(399)
Add back:		
Depletion, depreciation and amortisation	1,700	1,396
Gross profit before depreciation, depletion and amortisation	385	997

9. GOODWILL

Group	£000
COST	
At 1 January 2014	4,211
Additions	–
At 31 December 2014	4,211
Additions	–
At 31 December 2015	4,211
PROVISION	
At 1 January 2014	4,211
Charge for the year	–
At 31 December 2014	4,211
Charge for the year	–
At 31 December 2015	4,211
CARRYING VALUE	
At 31 December 2015	–
At 31 December 2014	–

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

Notes to the Financial Statements
for the year ended 31 December 2015

10. OTHER INTANGIBLES

Group	Licence £000	Exploration and evaluation assets £000	Development and production assets £000	Total £000
COST				
At 1 January 2014	302	498	3,028	3,828
Additions	12	947	1,568	2,527
Disposals	–	(68)	(918)	(986)
Transfer to development and production assets	–	(209)	209	–
Currency	20	73	251	344
At 31 December 2014	334	1,241	4,138	5,713
Additions	3	188	80	271
Disposals	–	–	–	–
Transfer to property, plant and equipment	–	–	–	–
Currency	17	61	197	275
At 31 December 2015	354	1,490	4,415	6,259
PROVISION				
At 1 January 2014	–	–	890	890
Transfer to development and production assets	–	–	577	577
Charge for the year	–	–	–	–
Impairment	–	–	(118)	(118)
Currency	–	–	81	81
At 31 December 2014	–	–	1,430	1,430
Charge for the year	–	–	1,026	1,026
Impairment	–	–	571	571
Disposals	–	–	–	–
Currency	–	–	105	105
At 31 December 2015	–	–	3,132	3,132
CARRYING VALUE				
At 31 December 2015	354	1,490	1,283	3,127
At 31 December 2014	334	1,241	2,708	4,283

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 £571,000 (2014: £nil) should be provided.

Amortisation, impairment charges and any profit or loss on disposal of the capitalised intangible costs is included within cost of sales in the consolidated income statement.

11. PROPERTY, PLANT AND EQUIPMENT

Group	**Plant & equipment – oil and gas assets £000**
COST	
At 1 January 2014	670
Additions	245
Dispositions	(247)
Currency	44
At 31 December 2014	712
Additions	25
Dispositions	–
Currency	33
At 31 December 2015	770
PROVISION	
At 1 January 2014	(181)
Charge for the year	(127)
Disposals	129
Currency	(12)
At 31 December 2014	(191)
Charge for the year	(103)
Disposals	–
Currency	(12)
At 31 December 2015	(306)
CARRYING VALUE	
At 31 December 2015	464
At 31 December 2014	521

Depreciation charges are included within cost of sales in the Consolidated Income Statement.

Notes to the Financial Statements

for the year ended 31 December 2015

12. FIXED ASSET INVESTMENTS

Company	Investment in subsidiary £000	Loan to subsidiaries £000	Loans to participating interests £000	Total £000
COST				
At 1 January 2014	4,409	6,361	–	10,770
Additions	–	1,386	–	1,386
At 31 December 2014	4,409	7,747	–	12,156
Additions	–	–	5	5
Reduction	–	(16)	–	(16)
At 31 December 2015	4,409	7,731	5	12,145
PROVISION				
At 1 January 2014	(4,409)	(2,334)	–	(6,743)
Charge for the year	–	(1,289)	–	(1,289)
At 31 December 2014	(4,409)	(3,623)	–	(7,032)
Charge for the year	–	(1,277)	–	(1,277)
At 31 December 2015	(4,409)	(4,900)	–	(9,309)
CARRYING VALUE				
At 31 December 2015	–	2,831	5	2,836
At 31 December 2014	–	4,124	–	4,124

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

The details of the subsidiaries are as set out below:

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

13. INVESTMENT IN JOINT VENTURE

	£000
COST	
At 1 January 2015	–
Additions in year	347
Impairment	–
At 31 December 2015	347
Share of post-tax losses of equity accounted joint ventures	(157)
CARRYING VALUE	
At 31 December 2015	190

The group has a 50 per cent interest in Independent Resources (Egypt) Limited a company incorporated in England & Wales, whose purpose is to invest in the oil and gas exploration and production activities in the Arab Republic of Egypt. The other shareholder in Independent Resources (Egypt) Limited (the "Joint Venture") is Independent Resources Group plc ("IRG") a UK resident company whose shares are traded on the AIM market of the London Stock Exchange.

In October 2015 the Joint Venture acquired a 50 per cent. working interest in the East Ghazalat production licence located in the Western Desert, Egypt from TransGlobe Energy Corporation through the acquisition of the entire share capital of Trans Globe (GOS) Inc. a wholly-owned subsidiary of TransGlobe Energy Corporation ("TransGlobe). In December 2015, the name of the acquired company was changed to Sahara Resources (GOS) Inc.

The total consideration for the transaction was $3.5 million of which $2.5 million has been deferred as a vendor loan repayable by the Joint Venture on 30 September 2017. The loan note accrues interest at 10 per cent annum payable semi-annually. Nostra Terra and Independent Resources plc are joint and severally liable for the repayment of the loan note.

The final loan note principal and semi-annual interest payable to Trans Globe thereon remain subject to final determination in accordance with completion working capital adjustment provisions in the sale and purchase agreement.

At 31 December 2015 the loan note principal has been recorded based on Trans Globe's initial assessment of working capital at completion and interest on this estimated loan note principal has been accrued up to 31 December 2015.

The US dollar denominated loan liability all to TransGlobe has been retranslated at prevailing year-end exchange rates.

As a non-monetary long-term asset, the consideration for acquiring the share capital of Trans Globe GOS Inc. has been recorded at the prevailing exchange rate at the time of completion of the acquisition but has not been retranslated at the prevailing year-end exchange rate.

In January 2016 the Joint Venture was served with notice of default in relation to cash calls raised by North Petroleum International S.A. ("North Petroleum") the operator of East Ghazalat.

The Joint Venture has rebutted the claims from North Petroleum but the current breakdown in relations has meant that operator North Petroleum has been unwilling to furnish financial information to allow a proper determination of licence costs and an audit of licence revenues to be completed.

In light of this lack of access to primary accounting records the results of the Joint Venture for the year ended 31 December 2015 reflect the investment in Sahara Resources GOS Inc. at historical cost and the loan note consideration payable to Trans Globe and the accrued costs of completing the related acquisition but do not consolidate any share of profits or losses attributable to Sahara Resources GOS Inc. underlying interests in the East Ghazalat licence for the period since 1 July 2015, the effective date of the transaction.

The current liabilities of the Joint Venture at 31 December 2015 primarily reflects amounts due to Independent Resources plc in respect of costs incurred by it to third parties in relation to the acquisition by the Joint Venture of Sahara Resources GOS Inc.

Notes to the Financial Statements

for the year ended 31 December 2015

13. INVESTMENT IN JOINT VENTURE continued

Summarised financial information in relation to the joint venture is presented below:

	31 December 2015 £	31 December 2014 £
As at 31 December		
Current assets	1	1
Non-current assets	2,303,201	–
Current liabilities	(266,124)	–
Non-current liabilities	(2,286,990)	–
Included in the above amounts are:		
Cash and cash equivalents	–	–
Current financial liabilities (excluding trade payables)	(266,124)	–
Non-current financial liabilities (excluding trade payables)	(2,286,990)	–
Net assets (100%)	(249,912)	–
Group share of net assets (50%)	(124,956)	–
Year ended 31 December		
Revenues	–	–
Total comprehensive loss (100%)	(313,969)	–
Group share of total comprehensive loss (50%)	(156,985)	–
Included in the above amounts are:		
Depreciation and amortisation	–	–
Interest income	–	–
Interest expense	36,277	–
Income tax expense	–	–

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Current:				
Prepayments and other receivables	157	472	–	–
Other taxes and receivables	14	19	14	19
	171	491	14	19

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

15. CASH AND CASH EQUIVALENTS

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Bank current accounts	144	861	69	552

16. TRADE AND OTHER PAYABLES

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Current:				
Trade payables	230	185	–	–
Accruals and deferred income	105	74	102	65
Decommissioning liability	29	24	–	–
Other taxes payables	9	10	–	–
	373	293	102	65

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.

17. FINANCIAL LIABILITIES – BORROWINGS

Maturity of the borrowings is as follows:

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Current:				
Repayable within one year:				
Loan notes	1,308	1,010	–	–
Repayable after one year:				
Loan notes	351	612	–	–
	1,659	1,622	–	–

The group has entered into a US$25 million credit facility (current borrowing base US$1.2 million) with Texas Capital Bank, a £5 million financing agreement (expandable to £10 million), and a US$1 million promissory note (expandable to US$3 million) with Yorkville Advisors.

18. CALLED UP SHARE CAPITAL

Authorised:

Number:	Class:	Nominal value:	2015 £000	2014 £000
3,360 million (2014 – 3,360 million)	Ordinary	0.1p	3,360	3,360

Allotted, called up and fully paid:

Number:	Class:	Nominal value:	2015 £000	2014 £000
3,359,578,276 / 3,359,578,276	Ordinary	0.1p	3,360	3,360

Notes to the Financial Statements

for the year ended 31 December 2015

19. RESERVES

Group	Translation reserve £000	Retained losses £000	Share premium £000	Total £000
At 1 January 2014	74	(9,299)	9,991	766
Shares issued in the year	–	–	1,166	1,166
Share issue cost	–	–	(97)	(97)
Loss for the year	–	(843)	–	(843)
Foreign exchange translation	(249)	–	–	(249)
At 31 December 2014	(175)	(10,142)	11,060	743
Shares issued in the year	–	–	–	–
Share issue cost	–	–	–	–
Loss for the year	–	(2,310)	–	(2,310)
Foreign exchange translation	111	–	–	111
At 31 December 2015	(64)	(12,452)	11,060	(1,456)

Company	Retained losses £000	Share premium £000	Total £000
At 1 January 2014	(8,870)	9,991	1,121
Shares issued in the year	–	1,166	1,166
Share issue cost	–	(97)	(97)
Loss for the year	(1,058)	–	(1,058)
At 31 December 2014	(9,928)	11,060	1,132
Shares issued in the year	–	–	–
Share issue cost	–	–	–
Loss for the year	(1,650)	–	(1,650)
At 31 December 2015	(11,578)	11,060	(518)

20. 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	
	2015 £	2014 £	2015 £	2014 £
United States Dollars (US$)	0.6544	0.6072	0.6741	0.6437

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for the year ended 31 December 2015

20. RISK AND SENSITIVITY ANALYSIS continued

Volatility of crude oil prices

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

	2015	2014
Per barrel – US$	37.19	59.29
Per barrel – £	25.07	38.16

Liquidity risk

The group expects to fund its exploration and development programme, as well as its administrative and operating expenses throughout 2015, principally using existing working capital and expected proceeds from the sale of future crude oil production. The group had a bank balance of approximately £232,000 at 31 December 2015.

21. 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.

22. RELATED PARTY TRANSACTIONS

Group

No related party transactions.

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:

	2015		2014	
	Balance £000	Loan advance/ repayment £000	Balance £000	Loan advance/ repayment £000
New Horizon Energy 1 LLC	7,413	538	6,880	1,341
Goldhawk Oil & Gas, LLC	860	–	860	45
Churchill Operating, LLC	–	–	–	–
Nostra Terra (Overseas) Limited	7	–	7	–
Independent Resources (Egypt) Ltd	5	5	–	–
Totals	8,285	543	7,747	1,386

The intercompany loans are unsecured and interest-free.

During the year fees amounting to £16,667 were paid to Discovery Energy Limited (a company controlled by Kristian Ewen Ainsworth) for the services of Kristian Ewen Ainsworth.

23. SHARE-BASED PAYMENTS

The group has a share-ownership compensation scheme for senior executives of the group whereby senior executives may be granted options to purchase ordinary shares in company. The group has previously issued warrants to senior executives as a welcome incentive and additionally during the year issued warrants as detailed below to third parties as consideration for their services. A share based payment charge of £nil (2014: £19,097) was expensed during the year.

The details of options and warrants are as follows:

Date of Grant	At 31.12.14	Granted	Exercised	Forfeits	At 31.12.15	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
28/07/2014	10,000,000	–	–	–	10,000,000	0.29	28/07/2014	28/09/2019
24/06/2015	–	50,000,000	–	–	50,000,000	0.18	24/06/2015	24/06/2020
Options								
25/01/2012	38,000,000	–	–	–	38,000,000	0.41	25/01/2012	25/01/2017
19/07/2012	120,000,000	–	–	(100,000,000)	20,000,000	0.47	19/07/2012	19/07/2017
29/10/2014	–	90,000,000	–	–	90,000,000	0.40	29/10/2014	28/10/2024

The total options and warrants outstanding at 31 December 2015 and 31 December 2014 are as follows:

Total at 31.12.15 208,000,000

Total at 31.12.14 168,000,000

The numbers of options outstanding to the directors at the year end were as follows:

Director	Warrants 2015	Warrants 2014	Options 2015	Options 2014	Total 2015	Total 2014
M B Lofgran	–	–	–	–	54,000,000	54,000,000
S V Oakes	–	–	–	–	16,000,000	16,000,000
Totals	–	10,000,000	–	–	148,000,000	158,000,000
Other – third party	–	10,000,000	–	–	–	10,000,000

Options and warrants issued during the year:

On 28 July 2014, 10,000,000 warrants were issued to a supplier for services provided, exercisable at 0.29p per share on or before 27 July 2019. The warrants will vest once the services have been provided.

On 29 October 2014, 90,000,000 options were issued to the group's directors, exercisable at 0.4p per share on or before 28/10/2014. 33,750,000 of the options vested on the date of grant, 22,500,00 of the options vest on the later of the 12 month anniversary of the date hereof and the date the first well is spudded on the White Buffalo Project and the final 33,750,000 options vest on the later of the 12 month anniversary of the date hereof and the date that the mid-market price per share as listed on AIM closes above 1 pence for 10 consecutive trading days.

On 23 June 2015 a total of 50,000,000 warrants were issued to Kristian Ewen Ainsworth (16,666,666 options issued) and to Discovery Energy Limited, a company controlled by Kristian Ewen Ainsworth (33,333,334 options issued) exercisable at 0.1754p on or before 23 June 2020. Half of all warrants issued in this round vest 12 months from the issue date, with the remaining half vesting 24 months from the issue date.

Notes to the Financial Statements

for the year ended 31 December 2015

23. 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:

	23 June 2015	28 October 2014	28 July 2014	22 June 2010
Share price at grant date	0.16p	0.265p	0.31p	0.47p
Exercise price	0.18p	0.40p	0.29p	0.52p
Option life in years	5 years	3.5 years	3.5 years	5 years
Risk free rate	1%	1.5%	1.5%	3.5%
Expected volatility	50%	50%	50%	10%
Expected dividend yield	0%	0%	0%	0%
Fair value of option/warrant	0.07p	0.045p	0.024p	0p

24. 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.

25. 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.

26. EVENTS AFTER THE REPORTING PERIOD

On 25 January 2016, Nostra Terra and Independent Resources plc (IRG), together joint venture (JV), announced that North Petroleum International Company (NPIC) was in substantial breach of the joint operating agreement between JV and NPIC which governs the East Ghazalat Concession in Egypt. The JV has prepared and served a full and detailed Dispute Notice as required by the joint operating agreement. The agreement provides for arbitration in London under UK Law if the dispute cannot be resolved.

On 4 March 2016, Nostra Terra issued 350,000,000 new ordinary shares at 0.10 pence per share. The issuance raised gross proceeds of £350,000 and Nostra Terra intends to use the net proceeds to strengthen its balance sheet, while seeking additional acquisitions.

On 31 May 2016 in General Meeting the company passed resolutions to effect a capital reorganization. The Capital Reorganisation comprises a sub-division of shares that created two classes of shares: subdivided shares with a nominal value of 0.002p ("Subdivided Shares") and deferred shares with a nominal value of 0.098p ("Deferred Shares") (the "Subdivision") followed by a consolidation of every 50 Subdivided Shares into one new ordinary share of 0.1 pence ("Consolidated Share") (the "Consolidation"). Subject to the provisions of the Companies Act 2006, the Deferred Shares may then be cancelled by the Company; or may be bought back by the Company for £1 and then cancelled as permitted under the amended articles.

The Deferred Shares are not be quoted and are required to be issued in order for the aggregate par value of the shares, once sub-divided and consolidated, to remain at 0.1p.

At the same time an additional 9 shares were issued so that the total number of shares in issue were 4,110,347,700 at the time of the Subdivision and Consolidation ensuring the number of shares in issue was exactly divisible by 50.

On 29 June 2016 the Company announced the acceptance of an offer for its 20 per cent interest in the prospect operated by Ward Petroleum Corporation in the Chisholm Trail, Oklahoma, for approximately US$ 2.1 million net. The sale is anticipated to close no later than 17 August 2016.

Notes

Nostra Terra

OIL & GAS COMPANY PLC

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