Nostra Terra

OIL & GAS COMPANY PLC

ANNUAL REPORT AND ACCOUNTS 2016

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Highlights

- Revenue for the period of £282,000 (2015: £594,000)*
- Gross loss for the period of £466,000 before depletion, depreciation and amortisation (2015: profit of £385,000)*
- Reduction in borrowings by more than 50% to £788,000
- Sale of Chisholm Trail prospect for $2.7m (final figure received), at a significant profit to the carrying book value of US$1.7m as at 31 December 2015

* Decrease in production, revenue and gross operational profit reflect the 6-month gap between selling the Chisholm Trail asset and acquiring the Pine Mills asset

- Acquisition of 80% working interest in Pine Mills oil field for US$1m
- First Permian Basin acquisition completed
- Raised, in aggregate, £600,000 via two placings
- Settlement of Loan Note for East Ghazalat acquisition, eliminating $2.5m in debt for a payment of $200k by the IRE JV (owner of 50% of East Ghazalat Concession), of which Nostra Terra owned 50%

Post Balance Sheet Highlights

- Acquisition of additional 7.5% Working Interest in Pine Mills and non-appealable Court Judgement in favor of Nostra Terra to secure remaining 12.5% Working Interest
- Stabilised, average production in May 2017 at Pine Mills reached 118bopd
- Second Permian Basin acquisition completed
- Appointment of Non-Executive Director, John Stafford, in conjunction with the retirement of Non-Executive Director, Stephen Oakes
- Raised £500,000 via a placing
- Acquisition of additional 25% interest in East Ghazalat Concession, through increasing ownership of IRE JV to 100%

Company Information

Directors
Ewen Ainsworth (Non-Executive Chairman)

Matt Lofgran (Chief Executive Officer)

Stephen Oakes (Non-Executive Director), retired 7 February 2017

John Stafford (Non-Executive Director), joined 7 February 2017

Secretary
International Registrars Limited

Registered office
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London EC1V 9EE

Registered number
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Auditor
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London EC1V 9EE

Nominated adviser and broker
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London W1K 3SQ

Broker
Smaller Company Capital Ltd.
4 Lombard Street
London EC3V 9HD

Solicitors
Ronaldsons LLP
55 Gower Street
London WC1E 6HQ

Bankers
National Westminster Bank plc
PO Box 712
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London EC2M 6XT

Registrars
Share Registrars Ltd
The Courtyard
17 West Street
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Chairman's Report

In my 2015 address to shareholders I set out the industry back drop and also the Nostra Terra strategic goals. It is against these criteria upon which the Company's progress and achievements can be assessed.

The oil price continues to be challenging for the industry but there is a growing expectation that we are now at the bottom of the cycle and those companies which have survived and restructured will benefit from the improving macro environment.

As stated, our strategic focus is to build a business which, at an oil price of $30/ bbl, is cash neutral and reliant primarily on conventional oil. 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.

I am pleased to report that Nostra Terra has made significant progress in 2016 with the sale of Chisholm Trail and the acquisition of Pine Mills and Permian Basin assets. These acquisitions fit with the stated strategic goal and will provide the Company with predictable long term production. In addition we have also, in undertaking these acquisitions, become the Operator of the acquired assets with the benefit of control and adding experienced operational personnel to the Company. Nostra Terra is hopeful of adding similar assets to its portfolio in its area of operation upon which the Company can leverage this experience and skill set.

Nostra Terra is therefore very different, having evolved its portfolio to an oil production focused Operator, and a broader set of skill sets and experience to utilise. Nostra Terra has also directly addressed its costs keeping a tight rein on overheads and a capital structure that is not overburdened with debt. The current administration expenses reflect this once non-recurring costs are deducted.

It is this discipline, and it's successful application, that has enabled Nostra Terra to survive the prolonged low oil price environment and to emerge stronger with the very real prospect of adding further long term oil production assets to grow the Company.

In Egypt, similar to Nostra Terra's strategy in the USA, the Company will commit funds when there is a realistic chance of profitable production. I am pleased that significant progress has been made with our Egyptian partners, and hopeful, given the successful resolution of certain commercial matters, of positive news in the coming months.

I am pleased to welcome John Stafford as a non-executive director to Nostra Terra, who brings many years of astute technical experience and insight to the Company. I also want to take the time to thank Stephen Oakes for the role he played in the early development of the Company and wish him well in his retirement.

Finally, I would like to thank the Company's shareholders for their continued support. Nostra Terra has made significant progress in delivering its growth strategy, and the Board remains fully committed to securing new projects for the Company, and to create significant shareholder value over the medium term. The next time I write to you I hope to report further meaningful progress on the Company's strategy.

Ewen Ainsworth
Chairman
30 June 2017

Chief Executive Officer's Report

Our team at Nostra Terra feels very positively about the position we're in right now. The results for 2016 reflect the difficult position Nostra was in, however the months ahead of us should prove to be an exciting time. The hard work we put into 2016 is paying off and the Company's future looks bright. I am extremely pleased to report we are well on the way to achieving our primary goal for 2017, which is to become cash flow positive across all levels of the business. This is not an easy feat with lower oil prices, however, once we meet this target it will set us apart from our peers on AIM and will enable us to focus more on securing assets with even greater potential upside.

In the first 4 months of 2017 revenue from Pine Mills alone have surpassed 2016 total revenue. Since then our rate of production has increased further with net cashflow being a significant contributor to our corporate overheads. We have also consolidated our position at East Ghazalat, Egypt, and begun solving the issues there. We now own 50% of that asset and that revenue will be reflected in our 2017 financial report.

We have only been able to reach this point after making a number of difficult decisions during 2016 and taking decisive action throughout the year. Although the oil market began to exhibit signs of cyclical recovery, as prices rallied from below US$30/bbl to just over $50/bbl in the last month, we had to restructure Nostra Terra's business model. We controlled costs, significantly reduced borrowings, reorganised the Company's share capital and embarked on a new strategy to acquire larger working interests in producing oil assets, which Nostra would operate. As part of this restructuring, we have decided not to pursue any further exploration of White Buffalo. We are writing down the value and will look to divest the prospect as we continue focussing on producing oil assets, which are profitable in the current environment. This means we now, have control over how work is done and the pace of development of our assets in the United States.

United States

To deliver our new strategy we committed to repositioning our asset portfolio. We disposed of a number of non-core assets, including our interest in the Chisholm Trail Prospect for US$2.7million, a significant premium to the carrying book value of the asset as at 31 December 2015. In the context of the difficulties facing the oil market, the Chisholm Trail sale was particularly pleasing because it reflected Nostra Terra's ability to identify assets with clear potential for growth. In the same way as Chisholm Trail retained its value, I have high hopes that our recent acquisitions will create substantial shareholder value over the medium term. Our recent success already suggests we are on the road to achieving this.

The timing of the Chisholm Trail sale was ideal for Nostra Terra. It brought sizeable new funds into the Company, thus minimizing dilution to shareholders. We were able to reduce a large portion of Nostra Terra's borrowings and also to start acquiring new assets during November 2016. The first two purchases included our entry into the Permian Basin and the acquisition of the initial 80% Working Interest in the Pine Mills Oil field, Texas.

Pine Mills is a perfect fit for Nostra Terra. Our operations team is based in Texas and this was exactly the sort of asset we were looking for to start rebuilding the Company's balance sheet. Production at Pine Mills is profitable below US$30/bbl. We were sure our team was well placed to make meaningful improvements to the oil fields from the point we took over as operator and so far this has proven to be the case, with average monthly production at 118 barrels of oil per day in May 2017. We also managed to reduce average lifting costs to US$16.31/bbl, having cut costs and identified other operational efficiencies.

As a result of this, Pine Mills started making an immediate positive contribution to Nostra Terra's bottom line. By the end of December 2016, net cash inflows from Pine Mills covered over 60% of Nostra Terra's total cost base, including corporate overheads. This contribution has continued, and actually increased into 2017, up to and including the writing of this report. Our aim at Pine Mills is to continue to reduce overall lifting costs and to raise production to an average stabilised rate of 130-150 barrels of oil per day.

Over at the Permian Basin, Nostra Terra has initially taken a more low key approach. As we have repeatedly commented, we believe the current market for oil assets presents a major opportunity. During the downturn in US oil production, the Permian Basin was the only producing region in the US which continued to see growth. As of writing, Nostra Terra has made two acquisitions that have added multiple leases in Permian Basin assets while identifying a pipeline of further acquisition targets.

Although current production rates are very low across Nostra Terra's Permian assets, there is a great deal of potential for growth. Nostra Terra's working interests include a number of low-risk, drill-ready locations, which are relatively inexpensive to drill. All our Permian leases are Held By Production ("HBP"), meaning that existing production enforces the current leases so they won't expire. This allows Nostra Terra to drill these new wells at its own pace. This means we can focus our working capital on securing acreage across the Permian, while continuing to develop Pine Mills and waiting for general conditions to improve. Our proven undeveloped reserves that we already own are comparable in size to our proven developed reserves at Pine Mills.

Nostra Terra has additional small non-operated working interests and royalties in Harrison County Texas, Brazos County Texas, Ochiltree County Texas, Kingfisher County Oklahoma, and Baca County Colorado. These are non-core assets of the Company.

Egypt

In Egypt, the rate of progress at East Ghazalat is not what we would have preferred. As the junior partner in the Independent Resources Egypt Joint Venture ("IRE JV"), Nostra Terra has been restricted in terms of information received and what it has been able to announce. Clearly there have been issues within the asset and we are hopeful that we will reach a resolution to these in 2017.

Later in 2016 Nostra Terra took a more active role. First was to address the issues with the loan note from TransGlobe. Nostra Terra was instrumental in securing a significant step forward; namely the negotiation and settlement of this note. Thanks to this, in September 2016 we persuaded TransGlobe to accept a US$200,000 payment in full and final settlement on the outstanding US$2.5 million loan note, which was created as part of the original acquisition by the IRE JV of the 50% stake in East Ghazalat. Nostra Terra paid US$100,000 of this sum, which removed a liability from our balance sheet of approximately US$1.3million. This reduced the overall acquisition cost of the 50% in East Ghazalat to approximately US$1.2million, meaning Nostra Terra acquired just over 500,000 barrels of 2P Reserves for the equivalent of US$1.19 a barrel. As of writing, no further funds have been spent on East Ghazalat.

Second, we have now taken an active role and are in discussion with the operator and the Egyptian government regarding a potential solution. Although Nostra Terra was the junior partner in the IRE JV, we have gone to great lengths to ensure that we have healthy working relationships with all parties involved in East Ghazalat.

Third, in June 2017 we reached an agreement to acquire a further 25% interest in the East Ghazalat Concession. This was done on great terms that limit Nostra Terra's expenditure (low risk) until existing hurdles are overcome and production milestones achieved (high reward). Assuming all production targets are met, Nostra Terra will have acquired just over 1 million barrels of 2P Reserves for the equivalent of US$1.09 per barrel of oil.

Outlook

Since the end of 2016, Nostra Terra has continued to make excellent progress. Beyond the success we are having at Pine Mills, we made our second acquisition in the Permian basin and will look for new opportunities to expand in the area. Having acquired a further 25% interest in East Ghazalat Concession on great terms, we plan to continue to build on existing relationships allowing the asset to progress.

Nostra Terra also strengthened our board with the addition of John Stafford. John brings with him a wealth of technical experience. We have a robust pipeline of potential deals, including a number of larger assets. John's expertise will no doubt continue to play an important role in helping us conduct thorough due diligence and enhance operational plans, as we seek to take the next step forward with Nostra Terra.

Conclusion

To finish I would like to thank our shareholders. After a difficult few years, Nostra Terra has made demonstrable progress in transforming its business model. This has not yet been fully reflected in the current share price, but we remain convinced that the track we are on is leading us towards material appreciation in the Company's worth. I look forward to providing further updates as we continue to build a solid foundation and march towards becoming a cash flow positive business.

Matt Lofgran
Chief Executive Officer
30 June 2017

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 2016.

Principal activity

The group's principal activity is the exploitation of hydrocarbon resources focusing at present in the USA 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 14 to 23, 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 change in net production which in 2016 decreased to 15,793 BOE (USA only) compared to 2015: 29,678 BOE (USA only). Decrease in production reflect the 6-month gap between selling the Chisholm Trail asset and acquiring the Pine Mills asset, as part of the repositioning of the portfolio.

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 21 to these accounts.

On behalf of the board:

M B Lofgran
Director
30 June 2017

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 2016.

Directors
The following directors have held office since 1 January 2016:

M B Lofgran,

S V Oakes (Resigned 7 February 2017),

K E Ainsworth

The following directors were appointed after 31 December 2016:

John Stafford (Appointed 7 February 2017)

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

	Salaries £	Fees £	Share-based compensation £	Total £
K E Ainsworth	_	45,833	_	45,833
M B Lofgran	108,313	_	_	108,313
S V Oakes	_	18,000	_	18,000
	108,313	63,833	_	172,146

The directors' remuneration for the year ended 31 December 2015 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

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 24.

At 31 December 2016, the directors' beneficial interests in the company's issued share capital were as follows:

	31.12.16		31.12.15	
	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	1,039,817	1.09	180,000	0.22
M B Lofgran	5,975,976	6.25	4,375,976	5.32
S V Oakes	283,333	0.3	283,333	0.34

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.

As at 22 June 2017, 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	20,271,818	16.81
TD Direct Investing Nominees (Europe) Limited	13,341,404	11.07
Barclayshare Nominees Limited	10,397,415	8.62
HSDL Nominees Limited	8,363,534	6.94
M B Lofgran	5,975,897	4.96
Investor Nominees Limited	4,267,762	3.54
HSBC Client Holdings Nominee (UK) Limited	4,000,000	3.32
Wealth Nominees Limited	3,864,307	3.21

Results and dividends

The loss for the year was £2,892,123 (2015: 2,311,781) which has been allocated against reserves. No dividends will be distributed for the year ended 31 December 2016.

Political and charitable contributions

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

Events after the reporting period

Refer to note 27 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. Sanlam Securities UK Limited was the company's 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 2016 was 1.97p (2015: 4.24p adjusted for the capital reorganisation).

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 note 1 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 Group and Company 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 and company'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
30 June 2017

Corporate Governance Report

31 December 2016

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 one executive director 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 (Replaced by John Stafford, 7 February 2017). 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 (Replaced by John Stafford 7 February 2017). 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.

Corporate Governance Report continued

31 December 2016

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 1980s 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 San Leon 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.

JOHN STAFFORD
Non-Executive Technical Director

John Stafford has 35 years experience in the oil & gas industry. He has been Vice President of Operations at Gulf Keystone (LSE:GKP) since May 2014, having joined that company as Manager, Geology & Geophysics in early 2009. John is a geoscientist, with specialist expertise in oil field development and reserve certification and reporting.

Mr Stafford has worked with well known companies in the oil and gas industry, such as ECL, Schlumberger and PGS, managing projects in integrated field management and all aspects of reserves certification and reporting. This includes the production of Competent Persons Reports. John has further experience of fractured reservoir development and risk management.

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 2016, 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 14 and 27 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'). During 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 breakdown in relations has meant that operator North Petroleum has continued to refuse to furnish financial information to allow a proper determination of licence costs and an audit of licence revenues to be completed. 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 £Nil of the group's investments in equity-accounted joint ventures as at 31 December 2016;
- the carrying value of £Nil of the company's investments in equity accounted joint ventures as at 31 December 2016;
- 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 2016.

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 2016 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.

Emphasis of matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's ability to continue as a going concern. The group incurred a net loss of £2,892,123 during the period ended 31 December 2016 and, at that date, the group's total assets exceeded its current liabilities by £312,000, and it had net current liabilities of £968,000. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and in the Group Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Group Directors' Report has been prepared in accordance with the legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Group Directors' Report.

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.

Sudhir Rawal, FCA
SENIOR STATUTORY AUDITOR
For and on behalf of Jeffreys Henry LLP,
Chartered Accountants, Statutory Auditor
Finsgate
5-7 Cranwood Street
London
EC1V 9EE
United Kingdom
30 June 2017

Consolidated Income Statement

for the year ended 31 December 2016

	Notes	**2016 £000**	2015 £000
Revenue		**282**	594
Cost of sales			
Production costs		**(130)**	(209)
Abortive acquisition costs		**(618)**	–
Well impairment		**(1,855)**	(571)
Depletion, depreciation, amortisation		**(445)**	(1,129)
Total cost of sales		**(3,048)**	(1,909)
GROSS PROFIT/(LOSS)		**(2,766)**	(1,315)
Share based payment		**154**	(27)
Administrative expenses		**(760)**	(689)
Share of results of joint venture	14	**(162)**	(157)
OPERATING LOSS	5	**(3,534)**	(2,188)
Finance expense	4	**(324)**	(122)
Other income	6	**967**	–
LOSS BEFORE TAX		**(2,891)**	(2,310)
Tax (expense) recovery	7	**–**	–
LOSS FOR THE YEAR		**(2,891)**	(2,310)
Attributable to:			
Owners of the company		**(2,891)**	(2,310)
Earnings per share expressed in pence per share:			
Continued operations			
Basic and diluted (pence)	9	**(3.416)**	(2.730)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	2016 £000	2015 £000
Loss for the year	**(2,891)**	(2,310)
Other comprehensive income:		
Currency translation differences	**262**	111
Total comprehensive income for the year	**(2,629)**	(2,199)
Total comprehensive income attributable to:		
Owners of the company	**(2,629)**	(2,199)

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital £000	Deferred shares £000	Share premium £000	Share options reserve £000	Translation reserves £000	Retained losses £000	Total £000
As at 1 January 2015	3,360	–	11,060	138	(175)	(10,142)	4,241
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
Shares issued	764	–	262	–	–	–	1,026
Consolidation and subdivision of shares	(4,028)	4,028	–	–	–	–	–
Share issue costs	–	–	–	–	–	–	–
Foreign exchange translation	–	–	–	–	262	–	262
Loss after tax for the year	–	–	–	–	–	(2,891)	(2,891)
Share based payments	–	–	–	(154)	–	–	(154)
As at 31 December 2016	**96**	**4,028**	**11,322**	**11**	**198**	**(15,343)**	**312**

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

Deferred shares represent an additional class of shares created during the year. These shares do not have any rights to the assets of the company until all common and preferred shareholders are paid.

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.

The share options reserve is a compensation scheme for senior executives of the group whereby senior executives may be granted options to purchase ordinary shares in the company.

Translation reserves arise on consolidation of the translation of the subsidiary's statement of financial position at the closing rate of exchange and its income statement at the average rate.

Retained loss represents the cumulative losses of the group attributable to owners of the company.

Company Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital £000	Deferred shares £000	Share premium £000	Share options reserve £000	Retained losses £000	Total £000
As at 1 January 2015	3,360	–	11,060	138	(9,928)	4,630
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
Shares issued	764	–	262	–	–	1,026
Consolidation and subdivision of shares	(4,028)	4,028	–	–	–	–
Share issue costs	–	–	–	–	–	–
Loss after tax for the year	–	–	–	–	(4,265)	(4,265)
Share based payments	–	–	–	(154)	–	(154)
As at 31 December 2016	**96**	**4,028**	**11,322**	**11**	**(15,843)**	**(386)**

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

Deferred shares represent an additional class of shares created during the year. These shares do not have any rights to the assets of the company until all common and preferred shareholders are paid.

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.

The share options reserve is a compensation scheme for senior executives of the group whereby senior executives may be granted options to purchase ordinary shares in the company.

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

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 £000	2015 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	10	**–**	–
Other intangibles	11	**1,036**	3,127
Property, plant, and equipment			
- oil and gas assets	12	**202**	464
Other assets		**41**	–
Investment in joint venture	14	**1**	190
		1,280	3,781
CURRENT ASSETS			
Trade and other receivables	15	**439**	171
Deposits and prepayments		**–**	5
Cash and cash equivalents	16	**172**	144
		611	320
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	**791**	373
Borrowings	18	**788**	1,308
		1,579	1,681
NET CURRENT LIABILITIES		**(968)**	(1,361)
NON-CURRENT LIABILITIES			
Other loans	18	**–**	351
NET ASSETS		**312**	2,069
EQUITY AND RESERVES			
Share capital	19	**4,124**	3,360
Share premium	20	**11,322**	11,060
Translation reserves	20	**198**	(64)
Share option reserve	24	**11**	165
Retained losses	20	**(15,343)**	(12,452)
		312	2,069

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2017 and were signed on its behalf by:

M B Lofgran
Director

Company registered number: 05338258

Company Statement of Financial Position

31 December 2016

	Notes	**2016 £000**	2015 £000
ASSETS			
NON-CURRENT ASSETS			
Fixed asset investments	13	**1**	2,836
Investment in joint venture	14	**1**	190
		2	3,026
CURRENT ASSETS			
Trade and other receivables	15	**48**	14
Cash and cash equivalents	16	**42**	69
		90	83
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	**248**	102
Borrowings	18	**230**	–
		478	102
NET CURRENT LIABILITIES		**(388)**	(24)
NON-CURRENT LIABILITIES			
Borrowings	18	**–**	–
NET LIABILITIES/ASSETS		**(386)**	3,007
EQUITY AND RESERVES			
Share capital	19	**4,124**	3,360
Share premium	20	**11,322**	11,060
Share option reserve	24	**11**	165
Retained losses	20	**(15,843)**	(11,578)
		(386)	3,007

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2017 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 2016

	Notes	**2016 £000**	2015 £000
Cash flows from operating activities			
Cash generated/(consumed) by operations	1	**(567)**	57
Interest paid		**(175)**	(115)
Cash generated/(consumed) by operations		**(742)**	(58)
Cash flows from investing activities			
Purchase of intangibles – new oil properties		**(987)**	(276)
Sale/(purchases) of plant and equipment		**(156)**	(25)
Proceeds from sale of assets		**2,431**	–
Purchase of equity in joint venture investment		**–**	(347)
Net cash from investing activities		**1,288**	(648)
Cash flows from financing activities			
Proceeds on issue of shares		**600**	–
New borrowing		**1,286**	1,156
Repayment of borrowings		**(2,850)**	(1,162)
Net cash from financing activities		**(964)**	(6)
Effect of exchange rate changes on cash and cash equivalents		**446**	(5)
Increase/(decrease) in cash and cash equivalents		**28**	(717)
Cash and cash equivalents at the beginning of the year	16	**144**	861
Cash and cash equivalents at the end of the year		**172**	144
Represented by:			
Cash at bank	16	**172**	144

Note to the Consolidated Statement of Cash Flows

for the year ended 31 December 2016

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

	2016 £000	2015 £000
Operating loss for the year	**(3,534)**	(2,188)
Adjustments for:		
Depreciation of property, plant, and equipment	**93**	103
Amortisation of intangibles	**352**	1,026
Well impairment	**1,855**	571
Share based payments	**(154)**	27
Other non-cash movements	**6**	–
Abortive acquisition costs	**426**	–
Share of results from joint venture	**162**	157
Operating cash flows before movements in working capital	**(794)**	(304)
(Decrease)/increase in finance charge provision	**99**	(15)
(Increase)/decrease in receivables	**(268)**	310
(Increase)/decrease in other assets	**(41)**	–
(Decrease)/increase in payables	**418**	34
(Increase)/decrease in deposits and prepayments	**5**	–
(Decrease)/increase in translation reserves	**262**	–
Borrowings written off	**(248)**	32
Cash generated/(consumed) by operations	**(567)**	57

Company Statement of Cash Flows

for the year ended 31 December 2016

	2016 £000	2015 £000
Cash flows from operating activities		
Cash generated/(consumed) by operations	**(276)**	(161)
Interest paid	**–**	–
Cash generated/(consumed) by operations	**(276)**	(161)
Cash flows from investing activities		
Funding provided to joint venture	**(116)**	–
Net cash from investing activities	**(116)**	–
Cash flows from financing activities		
Proceeds on issue of shares	**600**	–
New borrowing	**230**	–
Inter group loan (advances)	**(465)**	(322)
Net cash from financing activities	**365**	(322)
Increase/(decrease) in cash and cash equivalents	**(27)**	(483)
Cash and cash equivalents at the beginning of the year	**69**	552
Cash and cash equivalents at the end of the year	**42**	69
Represented by:		
Cash at bank	**42**	69

Note to the Company Statement of Cash Flows

for the year ended 31 December 2016

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

	2016 £000	2015 £000
Operating loss for the year	**(783)**	(1,650)
Adjustments for:		
Management fees	**(24)**	–
Abortive acquisition costs	**426**	–
Impairment of cost of investments	**–**	1,277
Share of results of joint venture	**162**	(157)
Share based payment	**(154)**	27
Loss on dissolution of subsidiary	**40**	
Foreign exchange loss/(gain) non-cash items	**(15)**	300
Operating cash flows before movements in working capital	**(348)**	(203)
(Increase)/decrease in receivables	**(34)**	5
(Decrease)/increase in payables	**106**	37
Cash generated (consumed) by operations	**(276)**	(161)

Notes to the Financial Statements

for the year ended 31 December 2016

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 (ticker: NTOG). 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 accounts have been prepared on the going concern basis, as whilst the group has net current liabilities of £967,922 (2015: £1,364,378), it also has net assets of £311,629 (2015: £2,069,231).

As explained in the strategic review, the Group was severely impacted during the period by the repositioning of its portfolio.

Accordingly, the validity of the going concern basis is dependent on the continued support of the Group's bankers and principal creditors. The Group's bankers and principal creditors have been supportive throughout the period, and have been renewing the Group finance facility on a rolling basis. The Group is compliant with all covenants with the bank

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. Based on trading to date and the acquisition of wells which are actively producing, the directors are confident that the company is a going concern for at least the twelve months from the date of sign off of these accounts. In addition, the group has extended the expiry date of its credit facility to 2019. The directors have reason to believe that they could borrow an additional US$750,000 of this facility based on assets owned at 31 December 2016, still held at the date of signing.

Accordingly, the directors are confident that the Group and Company will continue to remain a going concern for the foreseeable future. If the bank facilities were not renewed or were not prepared to lend, and the recovery plan were not to be achieved, then the Group would need to seek alternative finance including further fundraising in order to be able to support the Group as a going concern.

The financial statements do not include the adjustments that would result if the Group and the Company are unable to continue as a going concern.

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

New standard and amendments to IFRS effective as of 1 January 2016 have been reviewed by the Group. These standards and amendments principally relate to clarifications and presentation and there has been no material impact on the financial statements as a result. The new standards include:

- Amendments to IAS 16 and IAS 38 (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Amendments to IFRSs Annual Improvements 2012-14 Cycle
- Disclosure initiative (Amendment to IAS 1)
- Amendment to IAS 27 (Equity method in Separate Financial Statements)
- Amendment to IFRS 11 (Accounting for Acquisitions of Interest in Joint Ventures)
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception
- IFRS 14 (Regulatory Deferral Accounts)
- Amendments to IAS 16 and IAS 38 (Clarification of Acceptable Methods of Depreciation and Amortisation)

1. ACCOUNTING POLICIES continued

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

There were a number of standards and interpretations which were in issue at 31 December 2016 but were not effective at 31 December 2016 and have not been adopted for these Financial Statements.

The new standards include:

- IFRS 9 Financial Instruments (IASB effective 1 January 2018; 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)
- Improvements to IFRSs Annual Improvements 2012-14 Cycle (IASB effective for 1 January 2018 and 1 January 2019; 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 IFRS 2 Classification and Measurement of Share-based Payment Transactions (IASB effective 1 January 2018; not yet adopted by EU)
- Amendments to IAS 40 Transfers of Investment Property (IASB effective 1 January 2018; not yet adopted by EU)
- IFRIC 23 Uncertainty over Income Tax Treatments (IASB effective 1 January 2019; not yet adopted by EU)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (IASB effective 1 January 2018; not yet adopted by EU)
- Amendments to IFRS 1 and IAS 28 (IASB effective 1 January 2018; not yet adopted by EU)
- Amendments to IFRS for SMEs (effective 1 January 2017; not yet adopted by EU)
- Improvements to IFRSs Annual Improvements 2014-2016 Cycle (IASB effective for 1 January 2017; not yet adopted by EU)

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.

Notes to the Financial Statements continued

for the year ended 31 December 2016

1. ACCOUNTING POLICIES continued

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 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 as an expense immediately 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

1. ACCOUNTING POLICIES continued

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 statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable value.

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

Investments

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

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable in relation to the proceeds generated by the prospects which the company has working interest in. 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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(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.

Notes to the Financial Statements continued

for the year ended 31 December 2016

1. ACCOUNTING POLICIES continued

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 statement of financial position date.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary arises from goodwill or from the initial recognition) other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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 statement of financial position date.

Financial instruments

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

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

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

1. ACCOUNTING POLICIES continued

Fair values

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

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

Share-based compensation

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

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

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

Share capital

Ordinary shares are classified as equity.

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

Oil and gas assets

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

Exploration and evaluation ("E&E") assets

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

Pre-licence costs

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

Exploration and evaluation ("E&E") costs

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

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

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

Notes to the Financial Statements continued

for the year ended 31 December 2016

1. ACCOUNTING POLICIES continued

Treatment of E&E assets at conclusion of appraisal activities

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

Development and production assets

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

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

Depletion, amortisation and impairment of oil and gas assets

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

Where there has been a change in economic conditions that indicates a possible impairment in an oil and gas asset, the recoverability of the net book value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs. Any impairment identified is charged to the income statement separately from depletion, depreciation 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.

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 24. The fair value amounts used by the group have been derived by external consultants using standard recognised valuation techniques.

2. SEGMENTAL ANALYSIS

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

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

United Kingdom being the head office.

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

(i) Texas: 87.5% working interest in the Pine Mills Project, 50-75% working interest in Permian Basin, and other non-operated working interest.

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

(iii) Wyoming: 100% working interest in the White Buffalo Prospect

(iv) Oklahoma: Other non-operated working interest.

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 for the year ended 31 December 2016 is based on the location of the oil properties as disclosed below:

	US mid-continent 2016 £000	Head office 2016 £000	Total 2016 £000
Segment results – 2016			
Revenue	**282**	**–**	**282**
Operating loss before depletion, depreciation, amortisation, well impairment share-based payment charges and restructuring costs:	**(451)**	**(775)**	**(1,226)**
Depreciation of tangibles	**(93)**	**–**	**(93)**
Amortization of intangibles	**(352)**	**–**	**(352)**
Well impairment	**(1,855)**	**–**	**(1,855)**
Share of results of joint venture	**–**	**(162)**	**(162)**
Share based payment	**–**	**154**	**154**
Operating loss	**(2,751)**	**(783)**	**(3,534)**
Realised exchange (loss)/gain	**–**	**–**	**–**
Other income	**967**	**–**	**967**
Gain from extinguishment of debt	**–**	**–**	**–**
Finance expense	**(181)**	**(143)**	**(324)**
Tax	**–**	**–**	**–**
Loss before taxation	**(1,965)**	**(926)**	**(2,891)**
Segment assets			
Property, plant and equipment	**202**	**–**	**202**
Intangible assets	**1,036**	**–**	**1,036**
Cash and cash equivalents	**130**	**42**	**172**
Trade and other receivables	**391**	**48**	**439**
Investment in joint venture	**–**	**1**	**1**
Other assets	**41**	**–**	**41**
	1,800	**91**	**1,891**

Notes to the Financial Statements continued

for the year ended 31 December 2016

2. SEGMENTAL ANALYSIS continued

The chief operating decision maker's internal report for the year ended 31 December 2015 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 depletion, depreciation, amortisation, well impairment share-based payment charges and restructuring costs:	(181)	(123)	(304)
Depreciation of tangibles	(103)	–	(103)
Amortization 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	–	–	–
Other income	–	–	–
Gain from extinguishment of debt	–	–	–
Finance expense	–	–	–
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
Trade and other receivables	–	–	–
Investment in joint venture	–	–	–
Other assets	352	14	366
	4,018	83	4,101

3. EMPLOYEES AND DIRECTORS

	2016 £000	2015 £000
Directors' fees	**64**	32
Directors' remuneration	**108**	226
Social security costs	**6**	13
	178	271

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

	2016 Number	2015 Number
Directors	**3**	4
	3	4

3. EMPLOYEES AND DIRECTORS continued

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 2016 is as listed below:

	2016 £000	2015 £000
M B Lofgran	**108**	129

4. FINANCE INCOME/EXPENSE

For the years ended 31 December:	**2016 £000**	2015 £000
On bank balance	**–**	–
On other receivables	**(248)**	–
Finance Expense	**(76)**	(122)
	(324)	(122)

5. OPERATING LOSS FOR THE YEAR

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

	2016 £000	2015 £000
Auditors' remuneration (company £19,750 – 2015: £21,000)	**20**	21
Depreciation of property, plant and equipment	**93**	103
Amortisation of intangibles	**352**	1,026
Well impairment	**1,855**	–
Foreign exchange differences	**–**	–
Loss on the disposal of exploration and evaluation and oil and gas assets	**-**	-

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

	2016 £000	2015 £000
Directors' remuneration	**108**	226
Social security costs	**6**	13
Directors' fees	**64**	32
Travelling and entertaining	**36**	55
Accountancy fees	**37**	55
Legal and professional fees	**352**	214
Auditors' remuneration	**20**	21
Foreign exchange difference	**–**	(6)
Other expenses	**137**	79
	760	689

Notes to the Financial Statements continued

for the year ended 31 December 2016

6. OTHER INCOME

Other income is made up of the following:

	2016 £000	2015 £000
Gain on the disposal of assets	**966**	–
Other income	**1**	–
	967	–

7. INCOME TAX EXPENSE

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

	2016 £000	2015 £000
Current tax:		
Corporation tax	**–**	–
Overseas corporation tax/(recovery)	**–**	–
Total	**–**	–

	2016 £000	2015 £000
Loss before tax	**(2,891)**	(2,310)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20% (2015: 20%)	**(578)**	(462)
Effects of:		
Non-deductible expenses	**–**	–
Other tax adjustments	**578**	462
Foreign tax	**–**	–
	578	462
Current tax charge	**–**	–

At 31 December 2016 the group had estimated excess management expenses to carry forward of £5,231,130 (2015: £1,308,750). The deferred tax asset at 19% (2015: 20%) on these tax losses of £993,915 (2015: £262,000) has not been recognised due to the uncertainty of recovery.

8. 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 £4,266,644 (2015: £1,654,865).

9. 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:

	2016	2015
EPS – loss		
Loss attributable to ordinary shareholders (£000)	**(2,891)**	(2,310)
Weighted average number of shares	**84,623,219**	84,623,219
Continued operations:		
Basic and diluted EPS – loss (pence)	**(3.416)**	(2.730)

9. EARNINGS PER SHARE continued

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

	2016 £000	2015 £000
Gross profit before depreciation, depletion, amortisation and well impairment	**(466)**	385
EPS on gross profit before depletion, depreciation, amortisation and well impairment (pence)	**(0.551)**	0.455

	2016 £000	2015 £000
Reconciliation from gross loss to gross profit before depletion, depreciation and amortisation		
Gross (loss)/profit	**(2,766)**	(1,315)
Add back:		
Depletion, depreciation and amortisation	**445**	1,129
Well impairment	**1,855**	571
Gross profit before depreciation, depletion and amortization	**(466)**	385

10. GOODWILL

Group	£000
COST	
At 1 January 2015	4,211
Additions	–
At 31 December 2015	4,211
Disposal	(4,211)
At 31 December 2016	**–**
PROVISION	
At 1 January 2015	4,211
Charge for the year	–
At 31 December 2015	4,211
Disposal	(4,211)
At 31 December 2016	**–**
CARRYING VALUE	
At 31 December 2016	**–**
At 31 December 2015	–

Goodwill arose on the acquisition of Nostra Terra (Overseas) Limited in 2007 and was fully impaired in 2009. Nostra Terra (Overseas) Limited was dissolved on 11 January, 2016.

Notes to the Financial Statements continued

for the year ended 31 December 2016

11. OTHER INTANGIBLES

Group	Licence £000	Exploration and evaluation assets £000	Development and production assets £000	Total £000
COST				
At 1 January 2015	334	1,241	4,138	5,713
Additions	3	188	80	271
Disposals	–	–	–	–
Transfer to property, plant and equipment	–	–	–	–
Exchange differences	17	61	197	275
At 31 December 2015	354	1,490	4,415	6,259
Additions	–	–	987	987
Disposals	–	(56)	(4,917)	(4,973)
Transfer to property, plant and equipment	–	–	–	–
Exchange differences	71	154	1,041	1,266
At 31 December 2016	**425**	**1,588**	**1,526**	**3,539**
PROVISION				
At 1 January 2015	–	–	1,430	1,430
Charge for the year	–	–	1,026	1,026
Impairment	–	–	571	571
Disposals	–	–	–	–
Exchange differences	–	–	105	105
At 31 December 2015	–	–	3,132	3,132
Charge for the year	–	–	349	349
Impairment	365	1,451	25	1,841
Disposals	–	–	(3,659)	(3,659)
Exchange differences	34	137	669	840
At 31 December 2016	**399**	**1,588**	**516**	**2,503**
CARRYING VALUE				
At 31 December 2016	**26**	**–**	**1,010**	**1,036**
At 31 December 2015	354	1,490	1,283	3,127

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 £1,841,000 (2015: £571,000) should be provided. The above amounts are not adjusted in the event the company and the group is unable to continue as a going concern.

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.

12. PROPERTY, PLANT AND EQUIPMENT

Group	Plant & equipment – oil and gas assets £000
COST	
At 1 January 2015	712
Additions	25
Disposals	–
Exchange differences	33
At 31 December 2015	770
Additions	157
Disposals	(756)
Exchange differences	154
At 31 December 2016	**325**
PROVISION	
At 1 January 2015	(191)
Charge for the year	(103)
Disposals	–
Exchange differences	(12)
At 31 December 2015	(306)
Charge for the year	(93)
Impairment	(14)
Disposals	361
Exchange differences	(71)
At 31 December 2016	**(123)**
CARRYING VALUE	
At 31 December 2016	**202**
At 31 December 2015	464

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

In addition, the directors are of the opinion that an impairment of £14,000 (2015: £nil) should be provided.

Notes to the Financial Statements continued

for the year ended 31 December 2016

13. FIXED ASSET INVESTMENTS

Company	Investment in subsidiary £000	Loan to subsidiaries £000	Loans to participating interests £000	Total £000
COST				
At 1 January 2015	4,409	7,747	–	12,156
Additions	–	(16)	5	(11)
At 31 December 2015	4,409	7,731	5	12,145
Additions	–	1,595	112	1,707
Reduction	(4,409)	–	–	(4,409)
Transfers	1	(1)	–	–
At 31 December 2016	**1**	**9,325**	**117**	**9,443**
PROVISION				
At 1 January 2015	(4,409)	(3,623)	–	(8,032)
Charge for the year	–	(1,277)	–	(1,277)
At 31 December 2015	(4,409)	(4,900)	–	(9,309)
Charge for the year	–	(4,425)	(117)	(4,542)
Reduction	4,409	–	–	4,409
At 31 December 2016	**–**	**(9,325)**	**(117)**	**(9,442)**
CARRYING VALUE				
At 31 December 2016	**1**	**–**	**–**	**1**
At 31 December 2015	–	2,831	5	2,836

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 statement of financial position.

Loans to participating interests are reported as an increase in the company's investment in joint venture, but have been provided for.

The details of the subsidiaries are as set out below:

Company	Shareholding	Country of Incorporation	Nature of Business
Nostra Terra (Overseas) Limited ("NTOL")	–	Cyprus	Company dissolved January 2016.
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
Bucanneer Operating, LLC ("Bucanneer")	100%	USA	Oil and gas exploration in USA
Churchill Operating, LLC ("Churchill")	100%	USA	Oil and gas exploration in USA

Company	Registered Office Address
Nostra Terra (Overseas) Limited ("NTOL")	Company dissolved January 2016.
New Horizon Energy 1 LLC ("NHE")	564 Wedge Lane, Fernley, US-NV 89408
Goldhawk Oil & Gas, LLC ("Goldhawk")	564 Wedge Lane, Fernley, US-NV 89408
Bucanneer Operating, LLC ("Bucanneer")	4925 Greenville Ave Ste 200, Dallas, TX 75206
Churchill Operating, LLC ("Churchill")	564 Wedge Lane, Fernley, US-NV 89408

14. INVESTMENT IN JOINT VENTURE

Group	£000
COST	
At 1 January 2015	–
Additions in year	347
Impairment	–
Share of post-tax losses of equity accounted joint ventures	(157)
At 31 December 2015	190
Additions	–
Impairment	(27)
Share of post-tax losses of equity accounted joint ventures	(162)
At 31 December 2016	**1**
CARRYING VALUE	
At 31 December 2016	**1**
At 31 December 2015	190

At the 31 December 2016 the group had 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") was Echo Energy plc ("Echo"), formerly known as Independent Resources Group plc, 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 per 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 have been settled during the year. 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 years ended 31 December 2015 and 31 December 2016 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 investment is reported at estimated recoverable amounts at the company level. In determining the group carrying value of the interest in equity-accounted joint ventures, and consistent with IFRS 11, this has been written down to £nil.

The current liabilities of the Joint Venture at 31 December 2016 primarily reflects amounts due to Echo Energy 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.

Further progress has been made post-year-end – please see note 27 for details.

Notes to the Financial Statements continued

for the year ended 31 December 2016

14. INVESTMENT IN JOINT VENTURE continued

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

	31 December 2016 £	31 December 2015 £
As at 31 December		
Current assets	**943,026**	1
Non-current assets	**1,172,009**	2,303,201
Current liabilities	**(1,734,506)**	(266,124)
Non-current liabilities	**–**	(2,286,990)
Included in the above amounts are:		
Cash and cash equivalents	**–**	–
Current financial liabilities (excluding trade payables)	**(1,734,506)**	(266,124)
Non-current financial liabilities (excluding trade payables)	**–**	(2,286,990)
Net assets (100%)	**380,529**	249,912
Group share of net assets (50%)	**190,265**	124,956
Year ended 31 December		
Revenues	**–**	–
Total comprehensive loss (100%)	**(324,272)**	(313,969)
Group share of total comprehensive loss (50%)	**(162,136)**	(156,985)
Included in the above amounts are:		
Depreciation and amortisation	**–**	–
Interest income	**–**	–
Interest expense	**143,559**	36,277
Income tax expense	**–**	–

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Current:				
Prepayments and other receivables	**391**	157	**–**	–
Other taxes and receivables	**48**	14	**48**	14
	439	171	**48**	14

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

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Bank current accounts	**172**	144	**42**	69

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Current:				
Trade payables	**555**	230	**157**	–
Accruals and deferred income	**92**	105	**91**	102
Decommissioning liability	**132**	29	**–**	–
Other taxes payables	**12**	9	**–**	–
	791	373	**248**	102

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.

18. FINANCIAL LIABILITIES – BORROWINGS

Maturity of the borrowings is as follows:

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Current:				
Repayable within one year:				
Loans	**788**	1,308	**230**	–
Repayable after one year:				
Promissory notes	**–**	351	**–**	–
	788	1,659	**230**	–

Borrowings include a facility where the loans are secured against the Group's interest in its assets. Interest is charged for any day per annum at a variable rate equal to the higher of (i) the sum of one percent (1.00%) plus the WSJ Rate from time to time in effect or (ii) 4.25%. The facility expires in 2019. At the yearend, the balance was £400 (2015: £720,000).

Borrowings also include an unsecured loan with a balance at the yearend of £558,000 (2015: £588,000). Interest is charged at 12% per annum (2015: 10%) and the loan is fully repayable within the year.

The group entered into a loan agreement with a related party for £230,000. See note 23.

19. CALLED UP SHARE CAPITAL

Authorised:

Number:	Class:	Nominal value:	**2016 £000**	2015 £000
96 million (2015 – 3,360 million)	Ordinary	0.1p	**96**	3,360
4,110 million (2015 – nil)	Deferred	0.098p	**4,028**	–

Allotted, called up and fully paid:

Number:	Class:	Nominal value:	**2016 £000**	2015 £000
95,566,771 / 95,566,771 (2015: 3,359,578,276/3,359,578,276)	Ordinary	0.1p	**96**	3,360
4,110,347,700 / 4,110,347,700 (2015: nil)	Deferred	0.098p	**4,028**	–

During the year the Company reorganised its share capital. The Capital Reorganisation comprised a sub-division of shares that created two classes of shares: subdivided shares with a nominal value of 0.002p and deferred shares with a nominal value of 0.098p followed by a consolidation of every 50 subdivided shares into one new ordinary share of 0.1p. This also affects the share options and warrants as detailed in note 24.

Notes to the Financial Statements continued

for the year ended 31 December 2016

20. RESERVES

Group	Translation reserve £000	Retained losses £000	Share premium £000	Total £000
At 1 January 2015	(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)
Shares issued in the year	–	–	262	262
Share issue cost	–	–	–	–
Loss for the year	–	(2,891)	–	(2,891)
Foreign exchange translation	262	–	–	262
At 31 December 2016	**198**	**(15,343)**	**11,322**	**(3,823)**

Company	Retained losses £000	Share premium £000	Total £000
At 1 January 2015	(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)
Shares issued in the year	–	262	262
Share issue cost	–	–	–
Loss for the year	(4,265)	–	(4,265)
At 31 December 2016	**(15,843)**	**11,322**	**(4,521)**

21. 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.

21. RISK AND SENSITIVITY ANALYSIS continued

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 statement of financial position 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:

	Income statement		Balance sheet	
Group	**2016** **£**	2015 £	**2016** **£**	2015 £
United States Dollars (US$)	**0.7406**	0.6544	**0.8104**	0.6741

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. West Texas Intermediate ("WTI") oil prices ranged from $29.41 to $54.47 in 2016 and $38.43 to $62.00 in 2015.

Liquidity risk

The group expects to fund its exploration and development programme, as well as its administrative and operating expenses throughout 2017, principally using existing working capital and expected proceeds from the sale of future crude oil production. The group had a bank balance of approximately £172,000 at 31 December 2016.

22. FINANCIAL COMMITMENTS

Operating lease commitments

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

Capital commitments

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

Notes to the Financial Statements continued

for the year ended 31 December 2016

23. RELATED PARTY TRANSACTIONS

Group

No related party transactions.

Company

During the year, the Company advanced loans to its subsidiaries. It also provided for them too. The details of the transactions and the amount owed by the subsidiaries at the yearend were:

	2016		2015	
	Balance £000	**Loan advance/ (provision) £000**	Balance £000	Loan advance/ repayment £000
New Horizon Energy 1, LLC	**–**	**(7,413)**	7,413	538
Goldhawk Oil & Gas, LLC	**–**	**(860)**	860	–
Churchill Operating, LLC	**–**	**–**	–	–
Nostra Terra (Overseas) Ltd Limited	**–**	**(7)**	7	–
Independent Resources (Egypt) Ltd	**–**	**(5)**	5	5
Totals	**–**	**(8,285)**	8,285	543

The intercompany loans are unsecured and interest-free. Nostra Terra (Overseas) Limited was dissolved in January 2016 and the outstanding amount was recognised as a loss by the Company.

During the year fees amounting to £46,333 were accrued by Discovery Energy Limited (a company controlled by Kristian Ewen Ainsworth) for consultancy services. In addition, the Company obtained a loan to fund the purchase of the Pine Mills assets from Discovery Energy Limited in November 2016. The original principal balance of the loan totalled £230,000. The Company made loan payments of £2,000 for the year ended December 31, 2016. The loan, which is unsecured, bears interest at the rate of 10% per annum, and the balance is fully repayable in 2017.

24. 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 credit of £154,000 (2015: £27,000 expense) was recognised during the year.

The details of options and warrants are as follows:

							Exercise/vesting date	
Date of Grant	At 31.12.15	Granted	Consolidated to	Forfeits/ Provided	At 31.12.16	Exercise price	From	To
Warrants								
24/06/2015	50,000,000	–	1,000,000	–	1,000,000	8.77	24/06/2015	24/06/2020
03/03/2016	–	376,250,000	7,525,000	–	7,525,000	5.00	03/03/2016	03/03/2018
Options								
25/01/2012	38,000,000	–	760,000	(760,000)	–	20.50	25/01/2012	25/01/2017
19/07/2012	20,000,000	–	400,000	(400,000)	–	23.50	19/07/2012	19/07/2017
29/10/2014	65,000,000	–	1,300,000	(625,000)	675,000	20.00	29/10/2014	28/10/2024

The total options and warrants outstanding at 31 December 2016 and 31 December 2015 are as follows:

Total at 31.12.16 9,200,000

Total at 31.12.15 173,000,000 (consolidated and subdivided to 3,460,000)

24. SHARE-BASED PAYMENTS continued

The numbers of options outstanding to the directors at the yearend were as follows (2015 figures have been restated in line with the consolidation and subdivision of shares in 2016):

	Warrants		Options		Total	
Director	**2016**	2015	**2016**	2015	**2016**	2015
M B Lofgran	**–**	–	**600,000**	600,000	**600,000**	600,000
S V Oakes	**–**	–	**75,000**	320,000	**75,000**	320,000
K E Ainsworth	**333,333**	333,333	**–**	–	**333,333**	333,333
Discovery Energy Limited	**666,667**	666,667	**–**	–	**666,667**	666,667
Total	**1,000,000**	1,000,000	**675,000**	920,000	**1,675,000**	1,920,000

Options and warrants issued during the year and the previous year:

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.

On the 3 March 2016, a warrant exercisable at 0.1p on or before 3 March 2018 was issued together with every new share issued as part of the placing at that date of 350,000,000 Ordinary Shares. Under the terms of the Company's agreement, an additional 26,250,000 warrants were issued to Cornhill Capital, the Company's broker, as part of a placing of Ordinary Shares.

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 69% because the volatility over the past two years has been used rather than the past five 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:

	3 March 2016	23 June 2015	28 October 2014
Share price at grant date	0.047p	0.16p	0.265p
Exercise price	0.1p	0.18p	0.40p
Option life in years	2 years	5 years	3.5 years
Risk free rate	1.3%	1.3%	1.3%
Expected volatility	69%	69%	69%
Expected dividend yield	0%	0%	0%
Fair value of option/warrant	0.1p	0.24p	0.43p

25. 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.

26. 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.

Notes to the Financial Statements continued

for the year ended 31 December 2016

27. EVENTS AFTER THE REPORTING PERIOD

On 26 January, 2017 the Company acquired an additional 7.5% stake of Pine Mills with effect from 1 November 2016. This has been adjusted for the in the current year's financial statements.

On 19 April 2017, 25,000,000 new ordinary shares were issued for a consideration of £500,000 with a nominal value of 0.1p per share.

On 24 May 2017, the Company provided an update on the progress to secure the remaining 12.5% stake in the Pine Mills oil field through a non-appealable Court Judgement against Hammerhead Management Partners ("Hammerhead") and in favor of Nostra Terra. A Judge in Wood County has signed an Order of Execution, whereby the appointed Constable will now take formal possession of the 12.5% Working Interest in Pine Mills and it will shortly be put it up for sale. When the sale occurs Nostra Terra will have the choice of collecting the proceeds from the highest bidder or to use the Court Judgement of $426,322 to credit bid for the 12.5% Working Interest in Pine Mills.

On 26 May 2017 the Company announced it had agreed to acquire 204,226,748 ordinary shares of Magnolia Petroleum ("Magnolia") plc at £0.001 each. This represents a 10.9% interest in the ordinary share capital of Magnolia, an AIM-quoted exploration & production company with assets in the mid-continent of the USA. The Company is making the investment as an alternative and additional way to increase its exposure to the oil and gas market in the USA.

On 14 June 2017 the Company reached an agreement with Echo Energy plc ("Echo") to acquire Echo's 50% stake in Independent Resources Egypt Limited (IRE). IRE owns a 50% non-operating interest in the East Ghazalat concession, Egypt ("the concession") through its subsidiary Sahara Resources GOS Inc. The remaining 50% of the concession is owned by North Petroleum International Company, which is the Operator. An initial consideration of $100,000 is to be paid to Echo, subject to approval by the Egyptian General Petroleum Corporation, potentially followed by additional production related payments totaling up to $400,000. Each payment can be satisfied in cash or in new ordinary shares in the Company of 0.1p at the Company's discretion.

Notes

Notes continued

OIL & GAS COMPANY PLC

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