Nostra Terra

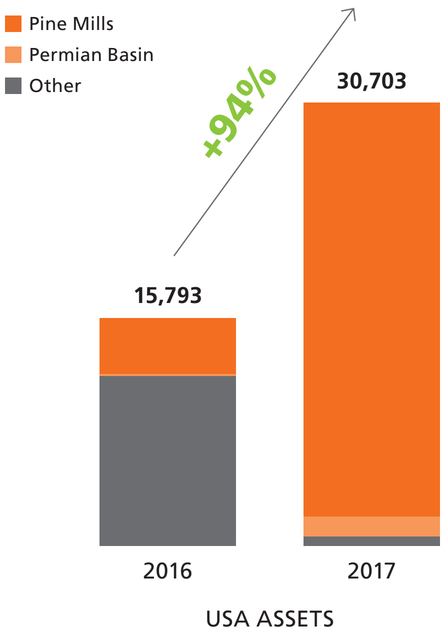
OIL & GAS COMPANY PLC

ANNUAL REPORT
AND ACCOUNTS 2017

Nostra Terra is an oil and gas exploration and production company focused on established hydrocarbon provinces in the USA and Egypt.

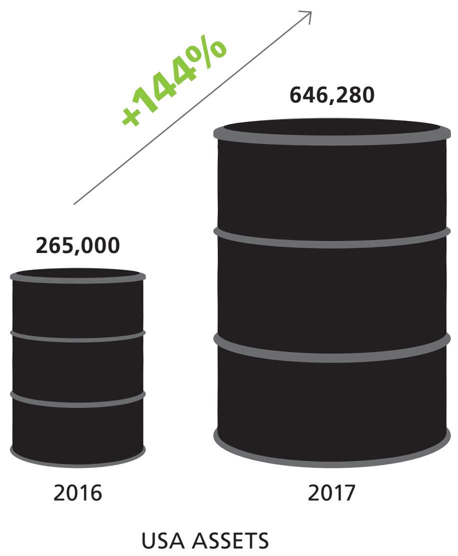
Production Net sales volume (BOE)

30,703



Reserves Proved (1P)

646,280



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www.ntog.co.uk

Highlights

- Revenue for the period increased 300% to £1,128,000 (2016: £282,000)
- Production for the period increased 94% to 30,703 BOE (USA only) (2016: 15,793)
- Proven Reserves (1P) for the period increased 144% to 646,280 BOE (2016: 265,000 BOE)
- Loss for the period of £1,044,000 (2016: £2,891,000)
- Acquired a further 20% Working Interest in the Pine Mills oil field
  - Acquired through court judgement at no additional cost
  - First operator in three years to run asset profitably
- Made two additional acquisitions in the Permian Basin
  - First new well ("Twin Well") successfully drilled in Permian Basin
- Acquired a further 25% of East Ghazalat
- Secured hedging facility with BP Energy Company
- Raised £500,000 via placing in April 2017
- John Stafford joined the Board of Directors

Post Balance Sheet Highlights

- Permitted three additional wells in the Permian Basin
- New $5,000,000 Senior Lending Facility, 4.75% interest rate with initial borrowing base of $1,200,000
- Completed Twin Well; production exceeded expectations
- Became cash flow positive at the Plc level
- Warrants exercised, from April 2017 placing, raising additional £635,700
- East Ghazalat, referral made for international arbitration to seek resolution of issues with North Petroleum
- Back-to-back wells drilled in Permian Basin
  - One well plugged and abandoned, due to high pressure inflow of water, replacement well on lease permitted and being planned
  - One well successful, currently being completed for production

Company Information

Directors
Ewen Ainsworth (Non-Executive Chairman)
Matt Lofgran (Chief Executive Officer)
John Stafford (Non-Executive Technical Director)

Secretary
International Registrars Limited

Registered office
Finsgate
5-7 Cranwood Street
London EC1V 9EE

Registered number
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Auditor
Jeffreys Henry LLP
Finsgate
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London EC1V 9EE

Nominated adviser and broker
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London W1K 3SQ

Broker
Smaller Company Capital Limited
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London EC3V 9HD

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London EC2M 5PS

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The Courtyard
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Chairman's Report

When I wrote my update to accompany the 2016 Annual Report, Nostra Terra was still in the early stages of embedding its new strategy. The price of oil was consolidating and signs of recovery across the industry were in sight.

Twelve months later and the sector has rebounded strongly. Thanks to our efforts in 2016, Nostra Terra was well positioned to benefit greatly from this. The Company has since taken significant steps forward in realising its ambitions, delivering robust returns for shareholders.

Our strategic focus switched in 2016 to repositioning our portfolio of assets with the goal of growing stable oil production and reserves, which would be profitable at $30/bbl. In particular we sought to acquire leases, which were Held By Production (HBP). This ideally suited Nostra Terra because it meant we could control the pace of development of these assets, as conditions and our finances allowed.

In early 2017 we completed our second acquisition in the Permian Basin, Texas, and by April had increased the Company's current proven reserves (1P) in the US to 522,000 barrels. As stated a year ago, these reported reserves were bankable and laid the foundation to enabling Nostra Terra to gain access to the working capital required to grow long term oil production.

To that end, Nostra Terra raised £500,000 in a placing in late April 2017 and in September secured a hedging facility for future oil production with BP Energy Company. This was a significant leap forward for Nostra Terra and provided a ringing endorsement of the success of our new strategy. Perhaps more importantly it better positioned the Company to access non-dilutive working capital to fund future growth.

By the end of 2017 we were able to report we were in advanced discussions with a number of lenders. Eight days after the period ended, we finalised terms of a $5 million Senior Lending Facility with Washington Federal Bank, at an initial interest rate of 4.75% with an initial borrowing base of $1.2 million.

Operationally, the introduction of new funds has meant a great deal to the business and has already yielded tangible results. In October we completed our third acquisition in the Permian Basin and by the middle of November started drilling the first new well on this lease, the Twin Well.

We were subsequently able to put the Twin Well into production, a significant contributor to Nostra Terra becoming cash flow positive at the plc level, another major milestone for the Company.

In other areas, we have continued to work hard.

With respect to our investment in Magnolia Petroleum, we identified an opportunity where we believed our involvement would add significant value both to that company and to Nostra Terra. In response to the requisition for a General Meeting to seek change to Magnolia's board, Magnolia's existing directors chose to complete a highly dilutive deal, which we believe added precious little in terms of value to that company and was unfortunate for Magnolia's shareholders. We exited our position at a profit.

In Egypt we increased our stake in the East Ghazalat concession to 50%, having acquired Echo Energy's (AIM:ECHO) 25% stake for a $500,000 consideration payable only upon certain approvals and production hurdles. For minimal outlay we will increase Nostra Terra's assets to just over 1 million barrels of 2P Reserves.

We have continued to engage positively with various stakeholders in Egypt, and remain highly enthusiastic about the potential, but our first task has to be to resolve the legacy dispute with North Petroleum ("North"), the operator, which governs East Ghazalat, and the case has now been referred to international arbitration.

In summary, I believe the future looks very bright for Nostra Terra. We have delivered on our promise to build secure, long-term, profitable production. We are now cash flow positive at the plc level and have access to significant working capital, fundamental attributes that are rarely found in companies on AIM or of our size. Now that we have put in place such a solid foundation our intention is to build on this through further acquisitions and organic growth. I would like to thank our shareholders for their continued support and look forward to reporting more progress in future.

Ewen Ainsworth
Chairman
1 June 2018

Chief Executive Officer's Report

Our primary goal in 2017 was to become cash flow positive at the plc level. It took us two months longer than I had hoped, but we hit this target in February 2018. This is perhaps our most significant achievement to date and positions Nostra Terra for exciting growth ahead, as we seek to introduce larger assets to the Company with much more potential upside.

Revenues for the year were £1,128,000 an increase of 300% from 2016. Loss for the year was £1,044,000. In April 2017 the Company raised £500,000 through an equity placing at 2 pence per share. Included in this were 1 for 1 warrants, exercisable within 12 months at 3 pence per share. Nearly all of the warrants were exercised by April 2018, raising an additional £738,000 for the Company.

Moving forward we will certainly seek to build on this success, through further drilling across our existing portfolio of assets. However, now that we are in a much more secure position financially, with a stronger balance sheet, we can also afford to explore a more ambitious acquisition plan. If successful this change in approach could significantly increase Nostra Terra's growth trajectory.

My vision has always been to build a much larger company, built on solid fundamentals. The first phase of this plan is now complete and I am excited about the next phase ahead.

United States

Pine Mills, Texas

Having secured our initial stake (80% working interest) in the Pine Mills oil field in late 2016, our operations team made an immediate impact. By the turn of the year we were able to report two consecutive months of profitable oil production at Pine Mills and have sustained that record every month since. Furthermore, Pine Mills has provided us with such stable and consistent excess cash flow that it has become the cornerstone of our turnaround strategy.

This very much confirms our original basis for acquiring Pine Mills and the subsequent strategic efforts we expended in the first half of 2017 to secure 100% of the asset. Subsequently, we were able to include all revenues generated at Pine Mills in 2017 in our reported figures.

Due to the stable production at Pine Mills and the performance of our operational team, in September 2017 we secured a hedging facility with BP Energy Company. This was a significant achievement for a company of Nostra Terra's size and marked a turning point for the Company.

To secure the hedging facility we underwent a vigorous due diligence process. We were able to demonstrate an established track record of consistent production and the viability of our long-term model consolidating efforts made in the first half of 2017.

Permian Basin, Texas

Having secured the hedging facility, we were confident we would be able to obtain a new Senior Lending Facility. Initial discussions with a number of banks went well and this gave us confidence to press ahead with the third acquisition in the Permian Basin, where we would drill the Twin Well. This acquisition, in late October 2017, marked another step change in our delivery.

Prior to the acquisition, the neighbouring operator inadvertently drilled a well into the lease, which produced 350 barrels of oil in less than three days. Because of this error the neighbouring operator had to plug and abandon its well and was required to provide us with the well data.

It has since produced at a strong rate above 50bopd. From permitting to getting paid took less than four months.

We now have approximately 22 drill ready locations across our existing Permian Basin assets. Assuming we are able to continue growing production here, it is clear there is potential to increase significantly underlying value.

We retain interest and receive revenues from additional assets located in Oklahoma, Colorado and Wyoming. These are not substantial and are considered non-core assets.

Egypt

While we've made positive inroads in the country with the Government and local contact, unfortunately we have not been able to find a solution to the legacy issues with the Concession's operator, North Petroleum ("North"), and the case has now been referred to international arbitration.

We have been proactive in suggesting solutions to the issues raised, and sought positive resolutions. Nevertheless, Nostra Terra will now defend its position rigorously.

Senior Lending Facility

At the beginning of 2017 we secured a new $5 million Senior Lending Facility. The initial borrowing base was $1.2 million at a 4.75% interest rate. The facility will be reviewed at least twice a year, meaning the borrowing base can increase or decrease based on changes in production, reserves, cash flow and commodity prices. With the progress we have made increasing production at Pine Mills, across our Permian Basin assets, and the considerable improvement in the oil price, Nostra Terra is well positioned to accelerate its growth.

Outlook

With oil sector strength and Nostra Terra cash flow positive at the plc level, this is a most exciting time to be involved in the business. We already have a number of potential catalysts to rerate the business in our asset portfolio and are extremely well positioned to raise our sights in terms of new acquisitions. We are an attractive company to work with for potential targets and the Washington Federal Senior Lending Facility provides us with a great deal of balance sheet support.

I would like to finish by thanking our shareholders for their support and I look forward to providing more updates as we continue to grow the Company.

Matt Lofgran
Chief Executive Officer
1 June 2018

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 2017.

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 16 to 25, and are noted in the Chairman's Report on page 3 and the Chief Executive Officer's Report 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 2017 increased to 30,703 BOE (USA only) as noted on page 1. Increase in production primarily reflect the acquisition of the Pine Mills asset in East Texas.

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
1 June 2018

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 2017.

Directors

The following directors have held office since 1 January 2017:

M B Lofgran
S V Oakes (Resigned 7 February 2017)
K E Ainsworth
J Stafford (Appointed 7 February 2017)

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

	Salaries £	Fees £	Share-based compensation £	Total £
M B Lofgran	151,398	—	30,395	181,793
S V Oakes	—	—	—	—
K E Ainsworth	—	50,964	10,419	61,383
J Stafford	—	27,500	6,155	33,655
	151,398	78,464	46,966	276,828

The directors' remuneration for the year ended 31 December 2016 is summarised as follows:

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

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 2017, the directors' beneficial interests in the Company's issued share capital were as follows:

	31.12.17		31.12.16	
	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	2,502,063	1.99	1,039,817	1.09
M B Lofgran	5,975,976	4.76	5,975,976	6.25
J Stafford	—	—	—	—

Remuneration Committee and policy

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

Substantial shareholders

As at 17 May 2018, 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	17,560,305	11.93
Interactive Investor Services Nominees Limited (1)	14,630,833	9.94
Barclays Direct Investing Nominees Limited	14,032,294	9.53
HSDL Nominees Limited	10,926,350	7.42
Hargreaves Lansdown (Nominees) Limited (1)	6,911,591	4.7
Hargreaves Lansdown (Nominees) Limited (2)	6,911,591	4.7
Hargreaves Lansdown (Nominees) Limited (3)	6,155,952	4.18
Matt Lofgran	5,975,976	4.06
HSBC Client Holding Nominee (UK) Limited	5,899,923	4.01
Share Nominees Ltd	5,080,272	3.45
Interactive Investor Services Nominees Limited (2)	5,079,931	3.45

Results and dividends

The loss for the year was £1,153,000, which has been allocated against reserves. No dividends will be distributed for the year ended 31 December 2017.

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. Strand Hanson Limited was the Company's nominated advisor and broker. Capital Limited is the Company's co-broker.

The closing mid-market price at 31 December 2017 was 4.35p (2016: 1.97p).

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

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

In preparing these financial statements, the directors are required to:

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

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

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

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

On behalf of the board:

M B Lofgran
Director
1 June 2018

Corporate Governance Report
31 December 2017

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.

In light of recent changes to the AIM Rules for Companies the Board of Directors is currently reviewing which corporate governance code to adopt as required from 28 September 2018.

The Board of Directors
The board comprises two executive directors and two non-executive directors. It meets at least four times a year, as issues arise which require board attention. The board has a formal schedule of matters specially referred to it for decision. The directors are responsible for:

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

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

Audit Committee
The Audit Committee comprises Ewen Ainsworth as Chairman, and John Stafford. 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 John Stafford. 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 2017

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 (56) 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 30 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 (43) 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 (57) has 35 years' experience in the oil & gas industry. Vice President of Operations at Gulf Keystone (LSE:GKP) 2014–2017, oversaw 40,000 bopd, 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

to the members of Nostra Terra Oil & Gas Company Plc

Opinion

We have audited the financial statements of Nostra Terra Oil & Gas Company Plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company statements of financial position, the consolidated and Company statements of cash flows, the consolidated and Company statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards.

In our opinion, except for the effects of the matter described in Basis of qualified opinion paragraph below:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for qualified opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. The scope of our work was limited as a result of the following matter. As disclosed in Note 14 the ongoing dispute in relation to the operation of the Group's 50 per cent interest in the East Ghazalat production license, held indirectly through Independent Resources (Egypt) Ltd ("IRE"), in which the Company acquired full ownership in the year. The ongoing dispute between North Petroleum International S.A ("North"), the operator of East Ghazalat, and IRE with regards to cash calls raised against IRE, which have been rebutted by IRE. This issue is currently being arbitrated. Due to the breakdown in relations North refuses to furnish financial information to allow a proper determination of licence costs and an audit of licence revenues to be complete. As a consequence of the lack of access to primary accounting information 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 investment in the subsidiary as at 31 December 2017
- the Group's share of profit or loss attributable to the Group's underlying interest in the East Ghazalat licence for the period from 1 January 2017 to 31 December 2017

The lack of primary accounting information has led to IRE being excluded from the consolidated financial statements.

Conclusions relating to going concern

In forming our opinion on the financial statements, which has not been modified in respect of this matter, we have considered the adequacy of the disclosures 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 £1,044,000 during the year ended 31 December 2017 and, at that date, had net current liabilities of £1,571,000 with net liabilities of £226,000. 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 over 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Please note, the key audit matters do not include reference to the exclusion if IRE from the consolidated accounts as discussed in the basis for qualified opinion paragraphs.

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Carrying value of producing oil and gas assets – The Group holds multiple leases over producing oil and gas assets (wells) which are recorded as both tangible and intangible assets. Carrying values at the year end are: Intangibles: £1,043k (2016: £1,036k) Tangibles: £265k (2016: £202k)	We have understood and assessed the methodology used in the capitalisation of these assets. A review of the producing wells was undertaken with a view of identifying any indication of impairment. This entailed comparing oil reserves and net present values from the independent reserves report produced by Booth Reeves to the asset carrying values, and a detailed review of producing wells.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£105,000 (2016: £100,000).	£58,000 (2016: £55,000).
How we determined it	Average of: 10% of profit before tax; 1% of gross assets.	Average of: 10% of profit before tax; 1.5% of gross assets.
Rationale for benchmark applied	We believe that profit before tax and gross assets are the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark	We believe that profit before tax and gross assets are the primary measure used by the shareholders in assessing the performance of the Company and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £44,000 and £8,500.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2,900 (2016: £2,750) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of 3 reporting units, comprising the Group's operating businesses and holding companies.

We performed audits of the complete financial information of Nostra Terra Oil & Gas Company Plc, New Horizons Energy LLC, Buccaneer Operating LLC, Churchill Operating LLC, Goldhawk Oil & Gas LLC and Independent Resources (Egypt) Ltd, which were individually financially significant and accounted for 100% of the Group's revenue and 100% of the Group's absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units).

Independent Auditors' Report continued

to the members of Nostra Terra Oil & Gas Company Plc

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters 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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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 our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

This description forms part of our auditor's report.

Use of this report

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 auditor's 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.

Other matters which we are required to address

We were appointed by the Company on 30 June 2017 to audit the financial statements for the period ending 31 December 2017. Our total period of engagement is thirteen years, covering the periods ended 31 July 2005 to 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Jeffreys Henry LLP prepares tax computations based on the financial statements. A separate team is responsible for this work.

Our audit opinion is consistent with the additional report to the audit committee.

Sanjay Parmar (Senior Statutory Auditor)
For and on behalf of
Jeffreys Henry LLP, Statutory Auditor
Finsgate, 5-7 Cranwood Street
London EC1V 9EE
1 June 2018

Consolidated Income Statement
for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Revenue		**1,128**	282
Cost of sales			
Production costs		**(964)**	(130)
Abortive acquisition costs		**—**	(618)
Well impairment		**—**	(1,855)
Depletion, depreciation, amortisation		**(127)**	(445)
Total cost of sales		**(1,091)**	(3,048)
GROSS PROFIT/(LOSS)		**37**	(2,766)
Share based payment		**(40)**	154
Administrative expenses		**(891)**	(760)
Share of results of joint venture	14	**—**	(162)
OPERATING LOSS	5	**(894)**	(3,534)
Finance expense	4	**(202)**	(324)
Other income	6	**52**	967
LOSS BEFORE TAX		**(1,044)**	(2,891)
Tax (expense) recovery	7	**—**	—
LOSS FOR THE YEAR		**(1,044)**	(2,891)
Attributable to:			
Owners of the Company		**(1,044)**	(2,891)
Earnings per share expressed in pence per share:			
Continued operations			
Basic and diluted (pence)	9	**(0.918)**	(3.416)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	2017 £000	2016 £000
Loss for the year	**(1,044)**	(2,891)
Other comprehensive income:		
Currency translation differences	**(127)**	262
Total comprehensive income for the year	**(1,171)**	(2,629)
Total comprehensive income attributable to:		
Owners of the Company	**(1,171)**	(2,629)

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	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 2016	3,360	—	11,060	165	(64)	(12,452)	2,069
Shares issued	—	—	—	—	—	—	—
Share issue costs	764	—	262	—	—	—	1,026
Consolidation and subdivision of shares	(4,028)	4,028	—	—	—	—	—
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
Shares issued	30	—	563	—	—	—	593
Foreign exchange translation	—	—	—	—	(127)	—	(127)
Loss after tax for the year	—	—	—	—	—	(1,044)	(1,044)
Share-based payments	—	—	—	40	—	—	40
As at 31 December 2017	**126**	**4,028**	**11,885**	**51**	**71**	**(16,387)**	**(226)**

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

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

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

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

Company Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital £000	Deferred shares £000	Share premium £000	Share options reserve £000	Retained losses £000	Total £000
As at 1 January 2016	3,360	—	11,060	165	(11,578)	3,007
Shares issued	764	—	262	—	—	1,026
Consolidation and subdivision of shares	(4,028)	4,028	—	—	—	—
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)**
Shares issued	30	—	563	—	—	593
Loss after tax for the year	—	—	—	—	(852)	(852)
Share-based payments	—	—	—	40	—	40
As at 31 December 2017	**126**	**4,028**	**11,885**	**51**	**(16,695)**	**(605)**

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

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

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

Consolidated Statement of Financial Position

31 December 2017

	Notes	**2017 £000**	2016 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	10	**—**	—
Other intangibles	11	**1,043**	1,036
Property, plant and equipment – oil and gas assets	12	**265**	202
Other assets		**37**	41
Investment in joint venture	14	**—**	1
		1,345	1,280
CURRENT ASSETS			
Trade and other receivables	15	**345**	439
Cash and cash equivalents	16	**102**	172
		447	611
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	**732**	791
Borrowings	18	**1,286**	788
		2,018	1,579
NET CURRENT ASSETS		**(1,571)**	(968)
NON-CURRENT LIABILITIES			
Other loans	18	**—**	—
NET ASSETS/(LIABILITIES)		**(226)**	312
EQUITY AND RESERVES			
Share capital	19	**4,154**	4,124
Share premium	20	**11,885**	11,322
Translation reserve	20	**71**	198
Share option reserve	24	**51**	11
Retained losses	20	**(16,387)**	(15,343)
		(226)	312

The financial statements were approved and authorised for issue by the Board of Directors on 1 June 2018 and were signed on its behalf by:

M B Lofgran
Director

Company registered number: 05338258

Company Statement of Financial Position

31 December 2017

	Notes	**2017 £000**	2016 £000
ASSETS			
NON-CURRENT ASSETS			
Fixed asset investments	13	**—**	1
Investment in joint venture	14	**—**	1
		—	2
CURRENT ASSETS			
Trade and other receivables	15	**17**	48
Cash and cash equivalents	16	**58**	42
		75	90
LIABILITIES			
CURRENT LIABILITES			
Trade and other payables	17	**245**	248
Borrowings	18	**459**	230
		704	478
NET CURRENT ASSETS			
NON-CURRENT LIABILITIES			
Other loans	18	**—**	—
NET ASSETS/(LIABILITIES)		**(629)**	(386)
EQUITY AND RESERVES			
Share capital	19	**4,154**	4,124
Share premium	20	**11,885**	11,322
Share option reserve	24	**51**	11
Retained losses	20	**(16,719)**	(15,843)
		(629)	386

The financial statements were approved and authorised for issue by the Board of Directors on 1 June 2018 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 2017

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Cash generated/(consumed) by operations	1	**(818)**	(567)
Interest paid		**—**	(175)
Cash generated/(consumed) by operations		**(818)**	(742)
Cash flows from investing activities			
Purchase of intangibles - new oil properties		**(155)**	(987)
Sale/(purchases) of plant and equipment		**(131)**	(156)
Proceeds from sale of investment		**168**	2,431
Purchase of investment		**(125)**	—
Net cash from investing activities		**(243)**	1,288
Cash flows from financing activities			
Proceeds on issue of shares		**567**	600
New borrowing		**536**	1,286
Repayment of borrowings		**(11)**	(2,850)
Net cash from financing activities		**1,092**	(964)
Effect of exchange rate changes on cash and cash equivalents		**(101)**	446
Increase/(decrease) in cash and cash equivalents		**(70)**	28
Cash and cash equivalents at the beginning of the year	16	**172**	144
Cash and cash equivalents at the end of the year		**102**	172
Represented by:			
Cash at bank	16	**102**	172

Note to the Consolidated Statement of Cash Flows

for the year ended 31 December 2017

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

	2017 £000	2016 £000
Loss for the year	**(894)**	(3,534)
Adjustments for:		
Depreciation of property, plant, and equipment	**52**	93
Amortisation of intangibles	**74**	352
Well impairment	**—**	1,855
Share based payments	**40**	(154)
Other non-cash movements	**—**	6
Abortive acquisition cash	**—**	426
Share of results from joint venture	**—**	162
Operating cash flows before movements in working capital	**(728)**	(794)
(Decrease)/increase in finance charge provision	**(99)**	99
(Increase)/decrease in receivables	**193**	(268)
(Increase)/decrease in other assets	**4**	(41)
(Decrease)/increase in payables	**(59)**	418
(Increase)/decrease in deposits and prepayments	**—**	5
(Decrease)/increase in translation reserves	**(127)**	262
Borrowings written off	**(2)**	(248)
Cash generated/(consumed) by operations	**(818)**	567

Company Statement of Cash Flows

for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Cash generated/(consumed) by operations	1	**(348)**	(276)
Interest paid		**—**	—
Cash generated/(consumed) by operations		**(348)**	(276)
Cash flows from investing activities			
Purchase of investment		**(125)**	—
Proceeds from sale of investment		**168**	—
Funding provided to joint venture		**—**	(116)
Net cash from investing activities		**43**	(116)
Cash flows from financing activities			
Proceeds on issue of shares		**567**	600
New borrowing		**215**	230
Repayments on borrowings		**(11)**	
Inter group loan (advances)		**(450)**	(465)
Net cash from financing activities		**321**	365
Increase/(decrease) in cash and cash equivalents		**16**	(27)
Cash and cash equivalents at the beginning of the year		**42**	69
Cash and cash equivalents at the end of the year		**58**	42
Represented by:			
Cash at bank	16	**58**	42

Note to the Company Statement of Cash Flows

for the year ended 31 December 2017

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

	Notes	**2017 £000**	2016 £000
Operating profit/(loss) for the year		**459**	(783)
Adjustments for:			
Management Fees		**—**	(24)
Abortive acquisition costs		**—**	426
Impairment of cost of investments		**—**	—
Share of results of joint venture		**—**	162
Share based payment		**40**	(154)
Loss on dissolution of subsidiary		**—**	40
Foreign exchange loss/(gain) non-cash items		**(875)**	(15)
Operating cash flows before movements in working capital		**(376)**	(348)
(Increase)/decrease in receivables		**31**	(34)
(Decrease)/increase in payables		**(3)**	106
Cash generated (consumed) by operations		**(348)**	(276)

Notes to the Financial Statements

for the year ended 31 December 2017

GENERAL INFORMATION

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

1. ACCOUNTING POLICIES

Going concern

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's report and Directors report. In addition, note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group should be able to operate within the level of its current cash resources. Bases 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 12 months from the date of sign off of these accounts. In addition, the Group has obtained a US$5m credit facility with Washington Federal bank post year end where US$1.2m is available immediately.

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 Financing 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 IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2016 that would be expected to have a material impact on the Company.

1. ACCOUNTING POLICIES continued

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

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial period beginning 1 January 2017 and have not been early adopted. The Director anticipates that the adoption of these standard and the interpretations in future period will have no material impact on the financial statements of the Company.

Reference	Title	Summary	Application date of standard	Application date of Company
Amendments to IFRS 1	First-time Adoption of International Financial Reporting Standards	Amendments resulting from Annual Improvements 2014-2016 Cycle (removing short-term exemptions)	Annual periods beginning on or after 1 January 2018	1 January 2018
Amendments to IFRS 2	Share-based Payment	Amendments to clarify the classification and measurement of share based payment transactions	Annual period beginning on or after 1 January 2018	1 January 2018
Amendments to IFRS 4	Insurance Contracts	Amendments regarding the interaction of IFRS 4 and IFRS 9	Annual period beginning on or after 1 January 2018	1 January 2018
Amendments to IFRS 9	Financial Instruments	Amendments regarding the interaction of IFRS4 and IFRS 9	Annual period beginning on or after 1 January 2018	1 January 2018
IFRS 15	Revenue from Contracts with Customers	Original issue	Annual periods beginning on or after 1 January 2018	1 January 2018
IFRS 16	Leases	Original issue	Annual periods beginning on or after 1 January 2019	1 January 2019
Amendments to IAS 28	Investments in Associates and Joint Ventures	Amendments resulting from Annual improvements 2014-2016 cycle (Clarifying certain fair value measurements)	Annual periods beginning on or after January 2018	1 January 2018
Amendments to IAS 39	Financial Instruments: recognition and measurement	Amendments to permit entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied and to extend the fair value option to certain contracts that meet the 'own use' scope exception	Applies when IFRS 9 applied	1 January 2018
Amendments to IAS40	Investment Property	Amendments to clarify transfers or property to, or from investment property	Annual period beginning on or after January 2018	1 January 2018

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.

Notes to the Financial Statements continued

for the year ended 31 December 2017

1. ACCOUNTING POLICIES continued

Subsidiaries

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

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

Associates

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

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

Joint venture

Investment in entities which constitute a joint venture in accordance with the definition in International Accounting Standard no. 28 Investments in Associates are accounted for using the equity method, with the Group's share of profits or losses being adjusted against the original cost of the investment on an annual basis.

Intangible assets

Goodwill

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

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

Impairment of non-financial assets

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

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 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 by the prospects which the Company has a 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 balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

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

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

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

Notes to the Financial Statements continued

for the year ended 31 December 2017

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 recognised 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 utilised. Such assets and liabilities are not recognised if the temporary difference 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 realised. 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 balance sheet date.

Financial instruments

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

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

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

1. ACCOUNTING POLICIES continued

Fair values

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

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

Share-based compensation

The fair value of the employee and supplier 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.

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.

Notes to the Financial Statements continued

for the year ended 31 December 2017

1. ACCOUNTING POLICIES continued

Development and production assets

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

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

Depletion, amortisation and impairment of oil and gas assets

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

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

Decommission liability

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of the assets exist, a provision for decommissioning liability is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. An intangible asset of an amount equivalent to the provision is recognised and depreciated on a unit production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated intangible asset. Period changes in the present value arising from discounting are included in depletion, depreciation and amortisation cost in cost of sales.

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: 100% working interest in the Pine Mills Oilfield, 50-75% working interest in the 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

The chief operating decision maker's internal report for the year ended 31 December 2017 is based on the location of the oil properties as disclosed below:

	US mid-continent 2017 £000	Head office 2017 £000	Total 2017 £000
Segment results – 2017			
Revenue	**1,128**	**—**	**1,128**
Operating profit/(loss) before depreciation, amortisation, well impairment share-based payment charges and restructuring costs:	**(350)**	**(377)**	**(727)**
Depreciation of tangibles	**(52)**	**—**	**(52)**
Amortisation of intangibles	**(75)**	**—**	**(75)**
Well impairment	**—**	**—**	**—**
Share of results of joint venture	**—**	**—**	**—**
Share-based payment	**—**	**(40)**	**(40)**
Operating profit/(loss)	**(477)**	**(417)**	**(894)**
Realised exchange (loss)/gain	**—**	**—**	**—**
Gain from sale of assets	**10**	**42**	**52**
Finance expense	**(176)**	**(26)**	**(202)**
Tax	**—**	**—**	**—**
Gain/loss before taxations	**(778)**	**(375)**	**(1,044)**
Segment assets			
Property, plant and equipment	**265**	**—**	**265**
Intangible assets	**1,043**	**—**	**1,043**
Cash and cash equivalents	**44**	**58**	**102**
Trade and other receivables	**328**	**17**	**345**
Investment in joint venture	**—**	**—**	**—**
Other assets	**37**	**—**	**37**
	1,717	**75**	**1,792**

Notes to the Financial Statements continued

for the year ended 31 December 2017

2. SEGMENTAL ANALYSIS continued

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 depreciation, amortisation, well impairment share-based payment charges and restructuring costs:	(451)	(775)	(1,226)
Depreciation of tangibles	(93)	—	(93)
Amortisation 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	—	—	—
Gain from sale of assets	967	—	967
Gain from extinguishment of debt	—	—	—
Finance expense	(181)	(143)	(324)
Tax	—	—	—
Gain/loss before taxations	(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

3. EMPLOYEES AND DIRECTORS

	2017 £000	2016 £000
Directors' fees	**78**	64
Directors' remuneration	**151**	108
Social security costs	**11**	6
	240	178

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

	2017 Number	2016 Number
Directors	3	3
Directors and employees	3	3

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 year ended 31 December 2017 is as listed below:

	2017 £000	2016 £000
M B Lofgran	**181**	108

4. FINANCE INCOME/EXPENSE

For the years ended 31 December:	2017 £000	2016 £000
On bank balance	**—**	—
On other receivables	**(2)**	(248)
Finance expense	**(200)**	(76)
	(202)	(324)

5. OPERATING LOSS FOR THE YEAR

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

	2017 £000	2016 £000
Auditors' remuneration (Company £22,000 – 2016: £19,750)	**22**	20
Depreciation of property, plant and equipment	**52**	93
Amortisation of intangibles	**75**	352
Well impairment	**—**	1,855

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

	2017 £000	2016 £000
Directors' remuneration	**151**	108
Social security costs	**11**	6
Directors' fees	**78**	64
Travelling and entertaining	**57**	36
Accountancy fees	**37**	37
Legal and professional fees	**420**	352
Auditors' remuneration	**22**	20
Foreign exchange difference	**—**	—
Other expenses	**115**	137
	891	760

Notes to the Financial Statements continued

for the year ended 31 December 2017

6. OTHER INCOME

Other income is made up of the following:

	2017 £000	2016 £000
Gain on disposal of assets	**43**	966
Other income	**10**	1
	52	967

7. INCOME TAX EXPENSE

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

	2017 £000	2016 £000
Current tax:		
Corporation tax	**—**	—
Overseas corporation tax/(recovery)	**—**	—
Total	**—**	—

	2017 £000	2016 £000
Loss before tax	**(1,044)**	(2,891)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19% (2016: 20%)	**(198)**	(578)
Effects of:		
Non-deductible expenses	**—**	—
Other tax adjustments	**198**	578
Foreign tax	**—**	—
	198	578
Current tax charge	**—**	—

At 31 December 2017 the Group had estimated excess management expenses to carry forward of £8,587,508 (2016: £5,231,130). The deferred tax asset at 19% (2016: 19%) on these tax losses of £1,631,626 (2016: £993,915) 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 £852,000 (2016: £4,265,000).

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:

	2017	2016
EPS – loss		
Loss attributable to ordinary shareholders (£000)	**(1,044)**	(2,891)
Weighted average number of shares	**113,850,132**	84,623,219
Continued operations:		
Basic and diluted EPS – loss (pence)	**(0.918)**	(3.416)

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

9. EARNINGS PER SHARE continued

	2017 £000	2016 £000
Gross profit before depreciation, depletion and amortisation	**164**	(466)
EPS on gross profit before depletion, depreciation and amortisation (pence)	**0.144**	(0.551)

	2017 £000	2016 £000
Reconciliation from gross loss to gross profit before depletion, depreciation and amortisation		
Gross (loss)/profit	**37**	(2,766)
Add back:		
Well impairment	**—**	1,855
Depletion, depreciation and amortisation	**127**	445
Gross profit before depreciation, depletion and amortisation	**164**	446

10. GOODWILL

Group	£000
COST	
At 1 January 2016	4,211
Disposal	(4,211)
At 31 December 2016	—
Additions	—
At 31 December 2017	**—**
PROVISION	
At 1 January 2016	4,211
Disposal	(4,211)
At 31 December 2016	—
Charge for the year	—
At 31 December 2017	**—**
CARRYING VALUE	
At 31 December 2017	**—**
At 31 December 2016	—

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 2017

11. OTHER INTANGIBLES

Group	Licence £000	Exploration and evaluation assets £000	Development and production assets £000	Total £000
COST				
At 1 January 2016	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
Additions	—	—	155	155
Disposals	—	—	—	—
Transfer to property, plant and equipment	—	—	—	—
Exchange differences	(37)	(140)	(133)	(310)
At 31 December 2017	**388**	**1,448**	**1,548**	**3,384**
PROVISION				
At 1 January 2016	—	—	3,132	3,132
Charge for the year	—	—	349	1,026
Impairment	365	1,451	25	1,841
Disposals	—	—	(3,659)	(3,659)
Exchange differences	34	137	669	105
At 31 December 2016	399	1,588	516	2,503
Charge for the year	—	—	61	61
Impairment	—	—	—	—
Disposals	—	—	—	—
Exchange differences	(35)	(140)	(48)	(223)
At 31 December 2017	**364**	**1,448**	**529**	**2,341**
CARRYING VALUE				
At 31 December 2017	**24**	**—**	**1,019**	**1,043**
At 31 December 2016	26	—	1,010	1,036

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 flow 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 £1,680,000 (2016: £1,842,000) should be provided.

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

12. PROPERTY, PLANT AND EQUIPMENT

Group	Plant and equipment – oil and gas assets £000
COST	
At 1 January 2016	770
Additions	157
Disposals	(756)
Exchange differences	154
At 31 December 2016	325
Additions	131
Disposals	—
Exchange differences	(28)
At 31 December 2017	**414**
PROVISION	
At 1 January 2016	306
Charge for the year	93
Impairment	14
Disposals	(361)
Exchange differences	71
At 31 December 2016	123
Charge for the year	52
Disposals	(14)
Exchange differences	(12)
At 31 December 2017	**149**
CARRYING VALUE	
At 31 December 2017	**265**
At 31 December 2016	202

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 £nil (2016: £14,000) should be provided.

Notes to the Financial Statements continued

for the year ended 31 December 2017

13. FIXED ASSET INVESTMENTS

Company	Investment in subsidiary £000	Loan to subsidiaries interests £000	Loans to participating £000	Total £000
COST				
At 1 January 2016	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
Additions	—	43	1	44
Reduction	(1)	(503)	—	(504)
Transfers	190	118	(118)	190
At 31 December 2017	**190**	**8,940**	**—**	**9,130**
PROVISION				
At 1 January 2016	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
Charge for the year	—	43	1	44
Reduction	—	(503)	—	(503)
Transfer	189	118	(118)	189
At 31 December 2017	**189**	**—**	**—**	**9,172**
CARRYING VALUE				
At 31 December 2017	**1**	**—**	**—**	**1**
At 31 December 2016	1	—	—	1

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.

Historically loans to participating interests are reported as in increase in the Company's investment in joint venture, but have been provided for. As the Group acquired 100% shareholding in the joint venture this balance has been transferred to loan to subs.

The details of the subsidiaries are as set out below:

	Shareholding	Country of incorporation	Nature of business
New Horizon Energy 1 LLC ("NHE")	100%	USA	Oil and gas exploration in USA
Goldhawk Oil & Gas, LLC ("Goldhawk")	100%	USA	Company dissolved in 2017
Buccaneer Operating, LLC ("Buccaneer")	100%	USA	Oil and gas exploration in USA
Churchill Operating, LLC ("Churchill")	100%	USA	Company dissolved in 2017
Independent Resources (Egypt) ("IRE")	100%	UK	Oil and gas exploration in Egypt

Please refer to note 14 for further narrative on IRE. Due to lack of primary financial information the subsidiary has not been included in the consolidation. Full ownership was established in the year, leading to a the investments and loans in the joint venture to be reclassed to investments and loans to subsidiaries. At a Company level these balances had been fully impaired.

14. INVESTMENT IN JOINT VENTURE

Group	£000
COST	
At 1 January 2016	**190**
Additions	—
Impairment	—
Share of post-tax losses of equity accounted joint ventures	(189)
At 31 December 2016	**1**
Additions	—
Impairment	—
Transfer	(1)
At 31 December 2017	**—**
CARRYING VALUE	
At 31 December 2017	**—**
At 31 December 2016	1

The Group has acquired the remaining 50% interest in Independent Resources (Egypt) Limited (IRE), 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, from Echo Energy Plc. As the company was fully owned at the year end the balance of the investment in the joint venture was transferred to investment in subsidiaries. The consideration for the remaining 50% interest is $100,000 with 2 tranches of contingent payments of $200,000 made if the East Ghazalat concession produces 800 and 1,000 BOPD for a fixed timeframe. Each payment can be satisfied in cash or in new ordinary shares in the Company of 0.1p at the Company's discretion. No provision has been included for contingent consideration as, based on the information available at the time of the purchase, the Company did not expect the milestones to be met.

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

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

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

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

The US dollar denominated loan liability all to TransGlobe has been retranslated at prevailing year-end exchange rates. As a non-monetary long-term asset, the consideration for acquiring the share capital of Trans Globe GOS Inc. has been recorded at the prevailing exchange rate at the time of completion of the acquisition but has not been retranslated at the prevailing year-end exchange rate.

TransGlobe accepted an early settlement of the loan note with a final settlement of $200,000, which has released TransGlobe of any potential warrant or indemnity claims, in exchange for forgoing the outstanding loan balance of $2,300,000 and any accrued interest since acquisition of the company.

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.

Notes to the Financial Statements continued

for the year ended 31 December 2017

14. INVESTMENT IN JOINT VENTURE continued

In light of this lack of access to primary accounting records the results of the Company for the year ended 31 December 2016 and 31 December 2017 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 amount at the Company level.

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

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Current:				
Prepayments and other receivables	**328**	391	**—**	—
Other taxes and receivables	**17**	48	**17**	48
	345	439	**17**	48

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

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Bank current accounts	**102**	172	**58**	42

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Current:				
Trade payables	**466**	555	**126**	157
Accruals and deferred income	**131**	92	**119**	91
Decommissioning liability	**125**	132	**—**	—
Other taxes payable	**10**	12	**—**	—
	732	791	**245**	248

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing expenses. The directors consider that the carrying amount of trade and other payables approximates their fair value.

The amount provided for at 31 December 2017 represents the Group's share of expected decommissioning costs. These amounts are expected to be paid in years 2027 to 2037 years in line with the useful economic life of the assets.

18. FINANCIAL LIABILITIES – BORROWINGS

Maturity of the borrowings is as follows:

	Group		Company	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Current:				
Repayable within one year:				
Loan notes	**1,286**	788	**459**	230
Repayable after one year:				
Loan notes	**—**	—	**—**	—
	1,286	788	**459**	230

18. FINANCIAL LIABILITIES – BORROWINGS continued

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 the time to time in effect or (ii) 4.25%. The facility expires in 2019. At year end, the balance was £370 (2016: £400).

Borrowings also include an unsecured loan with a balance at year end of £827,000 (2016: £558,000). Interest is charged at 12% per annum (2016: 12%) and the loan is fully repayable within the year.

The Group entered has a loan agreement with two related parties with an outstanding balance as at the year end of £459,000 (2016: £230,000). See note 23.

19. CALLED UP SHARE CAPITAL

Authorised:

Number	Class	Nominal value	2017 £000	2016 £000
126 million (2016: 96 million)	Ordinary	0.1p	**126**	96
4,110 million (2016: 4,110 million)	Deferred	0.098p	**4,028**	4,028
			4,154	4,124

Allotted, called up and fully paid:

Number	Class	Nominal value	2017 £000	2016 £000
125,439,017/125,439,017 (2016: 95,566,771/95,566,771)	Ordinary	0.1p	**126**	96
4,110,347,700/4,110,347,700 (2016: 4,110,347,700/4,110,347,700)	Deferred	0.098p	**4,028**	4,028
			4,154	4,124

During the year there were a number of issues, the largest one being the issue of 25m shares (each with a warrant attached) for a consideration of £500,000. As at the year end 3.41m of these warrants had been exercised.

On 19 July 2017 the Company issued 1,462,246 ordinary shares to E Ainsworth in respect of his annual director's and consultancy fee. Of these 673,713 were payment in lieu of £25,000 which was owed . Of these shares 1,199,389 had been issued to Discovery Energy Limited and 262,857 to E Ainsworth directly.

20. RESERVES

Group	Translation reserve £000	Retained losses £000	Share premium £000	Total £000
At 1 January 2016	(64)	(12,452)	11,060	(1,456)
Shares issued in the year	—	—	262	262
Loss for the year	—	(2,891)	—	(2,891)
Foreign exchange translation	262	—	—	262
At 31 December 2016	198	(15,343)	11,322	(3,823)
Shares issued in the year	—	—	563	563
Loss for the year	—	(1,044)	—	(1,044)
Foreign exchange translation	(127)	—	—	(127)
At 31 December 2017	**71**	**(16,387)**	**11,885**	**(4,431)**

Company	Retained losses £000	Share premium £000	Total £000
At 1 January 2016	(11,578)	11,060	(518)
Shares issued in the year	—	262	262
Loss for the year	(4,265)	—	(4,265)
At 31 December 2016	(15,843)	11,322	(4,521)
Shares issued in the year	—	563	563
Loss for the year	(876)	—	(876)
At 31 December 2017	**(16,719)**	**11,885**	**(4,834)**

Notes to the Financial Statements continued

for the year ended 31 December 2017

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 risk, legal risk and environment risk. The Group's overall risk management programme focuses on unpredictability and seeks to minimise the potential adverse effects on the Group's financial performance. The board, on a regular basis, reviews key risks and, where appropriate, actions are taken to mitigate the key risks identified.

Capital risk

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

Market risk

The Group also faces risks in conducting operations in US mid-continent, which include but are not limited to:

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

Environmental risks

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

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

Credit risk

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

Foreign currency risk

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

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

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

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

The foreign exchange rate affecting the Group is as follows:

	Income statement		Balance sheet	
Group	**2017** **£**	2016 £	**2017** **£**	2016 £
United States Dollars (US$)	**0.7764**	0.7406	**0.7392**	0.8104

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 $33.97 to $60.46 in 2017 and $29.41 to $54.47 in 2016.

Liquidity risk

The Group expects to fund its exploration and development programme, as well as its administrative and operating expenses throughout 2018, principally using existing working capital and expected proceeds from the sale of future crude oil production. The Group had a bank balance of approximately £102,000 at 31 December 2017.

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.

23. RELATED PARTY TRANSACTIONS

Group

No related party transactions.

Company

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

	2017		2016	
	Balance £000	**Loan advance/ repayment £000**	Balance £000	Loan advance/ provision £000
New Horizon Energy 1 LLC	**—**	**(7,916)**	—	(7,413)
Goldhawk Oil & Gas, LLC	**—**	**—**	—	(860)
Churchill Operating, LLC	**—**	**—**	—	—
Nostra Terra (Overseas) Limited	**—**	**—**	—	(7)
Independent Resources (Egypt) Ltd	**—**	**(7)**	—	(5)
Total	**—**	**(7,923)**	—	(8,285)

The intercompany loans are unsecured and interest-free. Both Goldhawk Oil & Gas and Churchill Operating were dissolved in the year and the outstanding amount was recognized as a loss by the Company. These balances had however been fully impaired in the prior year.

As at the year end the Company owed E Ainsworth (a director) £13,333, Discover Energy Ltd (a company controlled by E Ainsworth) £26,666, J Stafford (a director) £12,500 and S Oakes (a former director) £18,000. These balances are interest free and due within one year.

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 loan is unsecured, bears interest at the rate of 10% per annum. A further loan was made in October 2017 for £130,000, which is unsecured, bearing an interest rate of 7.5% per annum. Loan repayments of these balances total £11,000 for the year ended 31 December 2017. This balance is fully payable in 2018.

The Company obtained a further loan from J Stafford in October 2017 for £85,000, which is unsecured, bearing an interest rate of 7.5% per annum. No repayment have been made in the year. This balance is fully payable in 2018.

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 charge of £40,000 (2014: credit of £154,000) was expensed during the year.

The details of options and warrants are as follows:

Date of Grant	At 31.12.16	Granted	Exercised	Forfeits	At 31.12.17	Exercise price	Exercise/vesting date From	To
Warrants								
23/06/2015	1,000,000	—	—	—	1,000,000	8.77	24/06/2015	24/06/2020
03/03/2016	7,525,000	—	—	(7,525,000)	—	5.00	03/03/2016	03/03/2018
07/02/2017	—	750,000	—	—	750,000	2.55	06/02/2017	06/02/2022
19/04/2017	—	25,000,000	(3,410,000)	—	21,590,000	3.00	19/04/2017	19/04/2018
Options								
28/10/2014	675,000	—	—	—	675,000	20.00	29/10/2014	28/10/2024
21/07/2017	—	2,666,666	—	—	2,666,666	3.00	21/07/2017	13/12/2022
21/07/2017	—	2,666,666	—	—	2,666,666	4.50	21/07/2017	13/12/2022
21/07/2017	—	2,666,666	—	—	2,666,666	6.00	21/07/2017	13/12/2022

Notes to the Financial Statements continued

for the year ended 31 December 2017

24. SHARE-BASED PAYMENTS continued

The total options and warrants outstanding at 31 December 2017 and 31 December 2016 are as follows:

Total at 31.12.17 32,014,998

Total at 31.12.16 9,200,000

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

	Warrants		Options		Total	
	2017	2016	**2017**	2016	**2017**	2016
M B Lofgran	**—**	—	**6,600,000**	600,000	**6,600,000**	600,000
S V Oakes	**—**	—	**75,000**	75,000	**75,000**	75,000
K E Ainsworth	**333,333**	333,333	**1,999,998**	—	**2,333,331**	333,333
Discovery Energy Limited	**666,667**	666,667	**—**	—	**666,667**	666,667
J Stafford	**750,000**	—	**—**	—	**750,000**	—
Totals	**1,750,000**	1,000,000	**8,674,998**	675,000	**10,424,998**	1,675,000

Options and warrants issued during the year:

On 7 February 2017, 750,000 warrants were issued to a J Stafford, exercisable at 2.55p per share. The warrants vest in two tranches, the first will vest on 7 February 2018 contingent on the share price being above 50% of the exercise price, and the second on 7 February 2019 contingent on the share price being above 100% of the exercise price.

On 19 April 2017 25,000,000 warrants were issued as part of a placement of shares. The warrants are exercisable at 3p per share and vest immediately. The warrants expire on 19 April 2018.

On 21 July 2017, 8,000,000 options were issued to the Group's directors, which vest if the share price exceeds 3p for 10 consecutive days within 12 months of the option issue, and will expire 5 years following the date the vesting conditions are met. The options are differentiated by 3 different exercise prices, with 2,666,666 exercisable at 3p per share, 4.5p per share and 6p per share.

The estimated fair value of the warrants issued during the year was calculated by applying the Black-Scholes option pricing model. Expected volatility was stated at 73.1% based on the movement in share price in the last year. 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:

	7 February 2017	21 July 2017	21 July 2017	21 July 2017
Share price at grant date	2.55p	1.55p	1.55p	1.55p
Exercise price	2.55p	3.00p	4.50p	6.00p
Option life in years	5 years	5.4 years	5.4 years	5.4 years
Risk free rate	1.3%	1.3%	1.3%	1.3%
Expected volatility	73.1%	73.1%	73.1%	73.1%
Expected dividend yield	0%	0%	0%	0%
Fair value of option/warrant	1.22p	0.60p	0.50p	0.42p

	23 June 2015	28 October 2014	3 March 2016
Share price at grant date	0.16p	0.265p	0.047p
Exercise price	0.18p	0.40p	0.10p
Option life in years	5 years	3.5 years	2 years
Risk free rate	1%	1.5%	1.3%
Expected volatility	50%	50%	69%
Expected dividend yield	0%	0%	0%
Fair value of option/warrant	0.24p	0.43p	0.1p

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.

27. EVENTS AFTER THE REPORTING PERIOD

On 31 January 2018 Nostra Terra opened a Senior Lending Facility with Washington Federal Bank. The initial facility size was US$5,000,000 and the initial borrowing base available was US$1,200,000 at a 4.75% interest rate.

On 19 April 2017 Nostra Terra raised £500,000 by way of a placement of 25,000,000 new ordinary shares of 0.1 pence each ("Ordinary Shares") (the "Placing Shares") at a price of 2 pence per Placing Share (the "Placing"). Each Placing Share will be issued with one warrant, exercisable at a price of 3 pence for 12 months from the date of this announcement. At the beginning of 2018, 21,590,000 shares remained available for exercise. Between the 1 January 2018 and 19 April 2018 21,190,000 shares were exercised at 3 pence per share, raising an additional £635,700 proceeds for the Company.

On 26 April 2018 Nostra Terra announced that unresolved issues between Nostra Terra's ultimate subsidiary, Sahara Resources (GOS) Inc and North Petroleum International Company SA, relating to the Company's Joint Venture at the East Ghazalat Concession Egypt, have been referred for arbitration.

Discovery Energy Limited and John Stafford advanced further sums of £22,000 and £40,000 respectively following year end under the terms set out in Note 23.

On 2 March 2018 the Company issued 577,204 ordinary shares to E Ainsworth in respect of his annual director's and consultancy fee. Of these shares 384,794 had been issued to Discovery Energy Limited and 192,411 to E Ainsworth directly.

Nostra Terra

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