Nostra Terra

OIL & GAS COMPANY PLC

ANNUAL REPORT
2010

Highlights

- Oil and gas production esablished in US
- First Texas well achieved payout in 35 days
- Operating subsidiary formed
- Operating loss for the year £591,000 (2009: £659,000)
- Settlement agreement secured post year end to terminate relationship with HPI
- Interests acquired in two additional prospect units in Texas

Contents

Company information

Directors	Sir Adrian Blennerhassett (Non-executive Chairman) Matt Lofgran (Chief Executive Officer) Alden McCall (Chief Operating Officer) Stephen Oakes (Non-executive Director)
Secretary	International Registrars Limited
Registered office	Finsgate 5-7 Cranwood Street London EC1V 9EE
Registered number	05338258 (England and Wales)
Auditors	Jeffreys Henry LLP Finsgate 5-7 Cranwood Street London EC1V 9EE
Nominated adviser	Religare Capital Markets 100 Cannon Street London EC4N 6EU
Broker	Alexander David Securities Limited 10 Finsbury Square London EC2A 1AD
Solicitors	Ronaldsons LLP 55 Gower Street London WC1E 6HQ
Bankers	National Westminster Bank plc PO Box 712 94 Moorgate London EC2M 6XT
Registrars	Share Registrars Ltd Suite E, First Floor 9 Lion & Lamb Yard Farnham Surrey GU9 7LL
Website	www.ntog.co.uk

Chairman's statement

Dear shareholder

I am pleased to present the annual report and accounts of Nostra Terra Oil and Gas Company plc for the year ended 31 December 2010.

This has been an eventful, and generally very positive, year for the company. Having set course on a new strategic direction in the second half of 2009, we have made considerable progress in implementing this strategy. Early in 2010, Nostra Terra began producing oil and gas in the US by participating in the redevelopment of a number of mature wells in Kansas. At the same time, the company transferred its original Ukrainian interests to a local operating entity while retaining rights to 25% of any future net profits from the assets with no further cost exposure.

In June 2010, we acquired a small (2%) interest in a horizontal redevelopment well within the Austin Chalk formation in Texas. The results exceeded our expectations, with the well producing sufficient oil and gas to pay back the total cost of redevelopment within just 35 days.

We were also pleased in June 2010 to welcome Alden McCall to our board of directors as Chief Operating Officer. Alden is a Certified Petroleum Geologist and MBA, who has previously held senior exploration positions with a number of US-based oil and gas companies. He has exceptional industry contacts and knowledge of both the geology of the major US hydrocarbon basins and the advanced technologies that can be used to transform the productivity of these mature basins – and win "new oil from old fields". His key priorities are to accelerate the growth of our portfolio in horizontal plays like the Austin Chalk by identifying, evaluating and acquiring substantial interests – operated as well as non-operated – that will build our cash flow and our reserve base.

More details about our progress and plans through the reporting period and to the time of preparing this report are contained in the Chief Executive's review on page 4.

While establishing Nostra Terra as an oil producer has been an exciting and important milestone this year, it has not all been plain sailing. As I reported in my interim statement, the performance of our Kansas properties (Hoffman, Boxberger and Bloom) was below our expectations and our view of their potential. Accordingly, we undertook a comprehensive review covering all aspects of the redevelopment programme, which involved detailed discussions with the operator of the Kansas properties, Hewitt Petroleum Inc. and related entities (the "HPI Entities"). As a result of these discussions, Nostra Terra and the HPI Entities agreed shortly after the year end to terminate their relationship.

A settlement agreement, the principal terms of which are outlined in the Chief Executive's review and which the board views as a very positive outcome for the company and our shareholders, was finally concluded in May 2011.

With this difficult situation now resolved and Nostra Terra assuming operatorship for the first time, on the Bloom Property, we are now able to focus all our attention and energy on delivering our ambitious growth strategy. Our aim is to build a diverse, balanced and efficiently managed portfolio of assets within proven hydrocarbon regions of the US that will generate strong and sustainable cash flow through the use of advanced technology.

As always, I would like to thank all our shareholders for their continued support, and we look forward to reporting on further significant progress in the year ahead.

Sir Adrian Blennerhassett
Chairman

24 June 2011

Chief Executive's review

During the year ended 31 December 2010, Nostra Terra laid the foundations on which we aim to build a profitable and fast-growing upstream business within established US hydrocarbon provinces.

We became an oil and gas producer, first in Kansas and later in Texas, and we are now an operator through our wholly-owned subsidiary, Churchill Operating LLC. After year end, we also made significant additions and improvements to our asset portfolio, which we are now looking to grow further in both scale and quality.

Nostra Terra incurred an operating loss for the year of £591,000 (2009: loss of £659,000), while revenues rose to £137,000 from £33,000 in the prior year.

At year end, the group held cash reserves of £720,000.

First oil was produced from the Hoffman Property in February 2010, followed a few weeks later by the Boxberger and Bloom Properties. By May 2010, a total of seven wells had been brought back into production on the three Kansas properties and were producing a total of approximately 73 barrels of oil per day (bopd).

These initial volumes were below our expectations, and they continued to be through the year. As we announced in our half yearly report last September, Nostra Terra initiated a detailed review of the redevelopment programme including geological, engineering and operational aspects. Following extensive discussions with the operator of the Kansas properties, Hewitt Petroleum, Inc. and related entities (the "HPI Entities") as well as a number of technical advisers, Nostra Terra and the HPI Entities agreed in January 2011 to end their relationship and entered into a settlement agreement.

A revised agreement was eventually closed in May this year, and the principal terms were as follows:

- Nostra Terra acquired 100% working interest in, and assumed operatorship of, the producing Bloom Property;
- Nostra Terra assigned its interest in the Boxberger Property, where operations were suspended pending the resolution of title issues, to the HPI Entities, as well as its interests in all other HPI-operated assets (including Hoffman, the undeveloped adjoining acreage within the Trapp Field and the Koelsch Property) and the Liberty #1 exploration well;
- Nostra Terra received a US$1.3 million note, secured by other assets of the HPI Entities, which will mature on 31 December 2011 and accrues interest at 10% per annum. An early settlement discount of 3% per 30-day period prior to the maturity date is available to the HPI Entities;
- In the expectation that HPI's successor, Richfield Oil & Gas Company, will become publicly traded prior to the expiration of the HPI note, Nostra Terra has the right, but not the obligation, to convert the principal amount outstanding under the note into shares of Richfield at US$0.25 per share; and
- Richfield has issued Nostra Terra a warrant to subscribe for up to 6 million shares of Richfield common stock with an aggregate exercise price of US$1.5 million at a strike price of US$0.25 per share, expiring one year after admission to trading on the Toronto Stock Exchange or the TSX Venture Exchange.

This review and resolution was extremely time-consuming, but it was crucial in ensuring the company is able to pursue its long-term growth objectives successfully. The board believes the revised terms agreed with HPI represent a more positive outcome for our shareholders than those of the original agreement which lapsed unclosed three months earlier, and provide us with a better asset base than we had previously.

We remain confident that there is scope, under our operatorship, to improve the productivity of the Bloom Property, where current production is approximately 20 bopd (gross). More importantly, we are now in a position to further expand our asset portfolio, and to focus all our resources on identifying and acquiring larger and more value-adding interests within established and emerging oil plays.

The appointment of Alden McCall as our Chief Operating Officer in June 2010 greatly enhances our capabilities both in operational and deal-making terms. As a Certified Petroleum Geologist who has held senior positions within a number of US-based upstream companies over the past 25 years, Alden has acquired tremendous knowledge of mature US hydrocarbon basins and of the potential presented by recent advances in drilling technology to capture new oil from these historic fields. He has also developed strong relationships with many leading players within the US industry.

Alden was instrumental in securing our first foothold in Texas which, though small, proved extremely encouraging. Our aim is to replicate this successful application of horizontal drilling technology with more and larger acquisitions in established US sandstone and carbonate reservoirs, and we believe there are abundant opportunities available.

This first Texas well, in which Nostra Terra has a 2% interest, is located in the Austin Chalk formation. Its redevelopment involved the drilling of a new section extending just over 1,900 feet horizontally from the original vertical wellbore. First oil was produced from the horizontal section in June 2010.

Austin Chalk wells characteristically flow at high initial rates followed by steep decline curves, and this well is no exception. Nevertheless, the total redevelopment costs of $890,000, including Nostra Terra's share, were fully recovered in just 35 days. The well, which has now produced sufficient oil and gas to exceed twice payout of its original cost, has been experiencing dropping production in recent weeks and several workover options are being evaluated. The well is expected to remain profitable, albeit at lower production volumes, for several years. There is also the possibility of drilling a second horizontal section into a lower zone within the producing formation at a later date.

Other post year end activities

Just after year end, the company acquired a 1.2% working interest before payout (BPO), 1.0% after payout (APO) in the Vintage Hills Prospect Unit, located within the large Giddings Field in Texas. The first horizontal well on the prospect unit, Agnello #1, was spudded by operator New Century Exploration, Inc. in mid-January to target one of four separate Austin Chalk reservoirs that had been identified as oil-bearing by earlier vertical drilling in the unit.

During the initial three-day test period, the well flowed at rates ranging between 402 and 139 barrels of oil equivalent per day, and to date it has produced approximately 1800 barrels of oil and 3600 barrels of oil equivalent in natural gas. The well is currently experiencing intermittent plugging in the lateral section, and a remedial workover is about to be conducted. Further lateral sections may be drilled in future to access the other oil-bearing Austin Chalk reservoirs.

Shortly after acquiring our interest in Vintage Hills, we entered into a second agreement with New Century Exploration, Inc., to acquire a 3.64% working interest BPO (3% APO) in the Nesbitt Prospect Unit, located in the Woodlawn Field in Texas.

The Nesbitt Prospect is a horizontal development project targeting the Middle Pettet Limestone formation. Most of the production to date from Woodlawn has been from the Lower Pettet "Crane" zone, but previous vertical drilling on the acreage has indicated that the Middle Pettit Limestone is also oil-bearing; it is also much thicker, but less porous and permeable than the Lower Pettet – making it an ideal candidate for horizontal drilling.

The first of potentially three wells planned within the Nesbitt Unit was spudded in March 2011 and was drilled vertically to a depth of approximately 7,000 feet followed by a horizontal section of just under 3,000 feet. Significant hydrocarbon shows were encountered in the target formation during drilling. Additional downhole work has still to be carried out before the well can be completed and fully tested, and a workover rig is due to arrive on site in early July.

Looking forward

There is no question that the resolution and conclusion of our relationship with HPI occupied a great deal of the board's time during and beyond the reporting period. However, we are pleased to have finally resolved this complex matter on terms that we believe are in the best interests of Nostra Terra's shareholders.

During the remainder of 2011, our priorities are to operate the Bloom Property in a way that will improve its productivity and profitability, and to step up the pace of our growth by identifying, screening and acquiring a diverse pipeline of assets in established oil and gas plays – including larger interests, and both operated and non-operated properties – where we can generate added value and strong, sustainable cash flow through disciplined cost control and the use of advanced technology.

Matt Lofgran
Chief Executive Officer

24 June 2011

Directors' report

The directors present their report with the financial statements of Nostra Terra Oil and Gas Company plc ("Company" or "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITY

The principal activity of the Group is the exploitation of hydrocarbon resources in the US mid-continent.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The results for the year and financial position of the Company and the Group are as shown in the annexed financial statements and noted in the Chairman's statement and Chief Executive's review.

KEY PERFORMANCE INDICATORS

At this stage in the company's development, the key performance indicators that the directors monitor on a regular basis are management of liquid resources – that is cash flows and bank balances, general administrative expenses, which are tightly controlled, and the level of production.

KEY RISKS AND UNCERTAINTIES

The key risk in the exploration and production business is the technical risk of no hydrocarbons being present when an exploration well is drilled. There are environmental and economic risks in US mid-continent.

RESULTS AND DIVIDENDS

The loss for the year was £590,808, which has been allocated against reserves. No dividends will be distributed for the period ended 31 December 2010.

DIRECTORS

The following directors have held office since 1 January 2010:

A M Blennerhassett
M B Lofgran
S V Oakes
A McCall (appointed 21 June 2010)

S Oakes will retire by rotation and A McCall will retire at the Company's forthcoming Annual General Meeting under the Articles of Association of the Company and, being eligible, offer themselves for re-election.

Remuneration of the Directors for the year is summarised as follows:

	Salaries/fees	Bonus	Total
	£	£	£
A M Blennerhassett	9,000	–	9,000
M B Lofgran	90,500	62,500	153,000
S V Oakes	18,000	–	18,000
A McCall	39,000	–	39,000
	156,500	62,500	219,000

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

The beneficial interests of the directors holding office on 31 December 2010 in the issued share capital of the Company were as follows:

	31.12.10		01.01.10	
	No of ordinary shares of 0.1p each	**Percentage of issued share capital**	**No of ordinary shares of 0.1p each**	**Percentage of issued share capital**
A M Blennerhassett	5,500,000	0.43%	5,500,000	0.43%
M B Lofgran	15,000,000	0.96%	15,000,000	0.96%
S V Oakes	14,166,666	0.91%	14,166,666	0.91%

The numbers of options outstanding to the directors at 31 December 2010 are as follows:

	31.12.10 No of warrants exercisable at 0.1p each	**01.01.10 No of warrants exercisable at 0.1p each**
M B Lofgran*	280,342,506	280,342,506
A B McCall	40,000,000	_

*62,500,000 of these vested and became capable of exercise in February 2010, and were exercised in February 2011.

SUBSTANTIAL SHAREHOLDERS

As at 22 June 2011, the Company was aware of the following interests in the issued share capital of the Company:

	No of ordinary shares of 0.1p each	**Percentage of issued share capital**
Barclayshare Nominees Limited	243,266,355	15.09%
TD Waterhouse Nominees (Europe) Limited	203,263,461	12.61%
HSDL Nominees Limited	168,973,858	10.48%
JIM Nominees Limited	165,250,859	10.25%
James Capel (Nominees) Limited	114,111,594	7.08%
HSDL Nominees Limited	103,118,115	6.40%
L R Nominees Limited	82,419,099	5.11%
M B Lofgran	79,000,000	4.90%
Share Nominees Limited	60,960,549	3.78%

COMPANY'S POLICY ON PAYMENT OF PAYABLES

It is the Company's normal practice to make payments to suppliers in accordance with agreed terms provided that the supplier has performed in accordance with the relevant terms and conditions.

EVENTS AFTER THE REPORTING PERIOD

On 16 May 2011, the company entered into an agreement with Hewitt Petroleum, Inc. (now Richfield Oil & Gas Company) and Hewitt Energy Group, Inc. (together the "HPI Entities").

The principal terms of the agreement, which terminated the operational relationship between the Company and the HPI Entities, were as follows:

Nostra Terra acquired a 100% working interest (WI) in, and assumed operatorship of, the producing Bloom property;

Nostra Terra's existing 75% WI before payout (50% WI after payout) in the Boxberger property, where operations remained suspended pending the resolution of title issues, was assigned to the HPI Entities;

Nostra Terra assigned to the HPI Entities its interests in all other HPI-operated assets (including Hoffman, the undeveloped adjoining acreage within the Trapp field and the Koelsch property) and the Liberty #1 exploration well;

Nostra Terra received a US$1.3 million note to be secured by other assets of the HPI Entities (the "HPI Note"). The HPI Note will mature on 31 December 2011 and accrues interest at 10% per annum. An early settlement discount of 3% per 30-day period prior to the maturity date is available to the HPI Entities;

In the expectation that HPI's successor, Richfield Oil & Gas Company ("Richfield") will become publicly traded prior to the expiration of the HPI Note, Nostra Terra has the right, but not the obligation, to convert the principal amount outstanding under the HPI Note into shares of Richfield at US$0.25 per share; and

Richfield has issued Nostra Terra a Warrant, exercisable in whole or in part, to subscribe for up to 6 million shares of Richfield common stock with an aggregate exercise price of US$1.5 million at a strike price of US$0.25 per share, expiring one year after admission to trading on the Toronto Stock Exchange or the TSX Venture Exchange. The warrant will be transferable, subject to the provisions of the US Securities Act 1933 (as amended).

On 17 January 2011, the Company granted options to subscribe for 3,000,000 ordinary shares of 0.1p each to Mr Stephen Oakes, exercisable at any time until 14 January 2014 (subject to extension if the Company is then in a close period) at a price of 0.37 pence per share, approximating to the average closing share price of NTOG over the 30 day period prior to grant. Mr Oakes has no other options or warrants over NTOG ordinary shares and is interested in 14,166,666 NTOG ordinary shares, representing approximately 0.88 per cent of the Company's issued ordinary share capital.

On 20 June 2011, the Company entered into an agreement with Plainsmen Partners LLC ("Plainsmen Partners") to acquire a 16.25% working interest in the Verde prospect, located in south-eastern Colorado. The leases cover approximately 636 net acres in which an initial test well will be drilled into the Mississippian formation to a projected total depth of 5,300 feet. The total estimated cost of the well is US$1,131,691, of which Nostra Terra's estimated portion is US$183,900. The net revenue interest of Nostra Terra's 16.25% working interest is 13.41%. Drilling of the well is expected to begin during Q3, 2011.

PUBLICATION OF ACCOUNTS ON COMPANY WEBSITE

Financial statements are published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The directors' 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 and the Group does maintain 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 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.

GOING CONCERN

After making appropriate enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements 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

24 June 2011

Corporate governance report

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

The Board of Directors

The Board is comprised of two executive directors and two non-executive directors.

The Board 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 the management structure and appointments, consideration of strategy and policy, approval of major capital investments and transactions, and significant financing matters.

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee, the respective roles and responsibilities of which are discussed below.

Audit Committee

An Audit Committee has been established and currently comprises A M Blennerhassett as Chairman and S V Oakes. Both have considerable and relevant financial experience.

The Audit Committee, which has Terms of Reference agreed by the Board, meets at least twice a year and is responsible for ensuring the integrity of the financial information reported to the shareholders and the systems of internal controls. This committee provides an opportunity for reporting by the Company's auditors.

The Audit Committee 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; reviewing and monitoring the external auditor's independence, objectivity and effectiveness of the audit process, taking into consideration relevant UK and other relevant 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, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor. 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 staff of the Group will be able to raise concerns about possible improprieties in matters of financial reporting or other matters related to the Group.

Remuneration and Nomination Committees

The Remuneration and Nomination Committees, which meet at least twice a year, consist of A M Blennerhassett as Chairman and S V Oakes. Based on the Terms of Reference approved by the Board, the Remuneration Committee is responsible for determining and agreeing with the Board the framework or broad policy for the remuneration of the Chief Executive Officer, the Chairman and other members as it is designated to consider. It is also responsible for setting the remuneration for all executive directors, the Chairman and the Company Secretary; to recommend and monitor the level and structure of remuneration for senior management; and determining targets for any performance-related pay schemes operated by the Group. The Remuneration Committee is also responsible for determining the policy and scope of pension arrangements for each executive director and for ensuring that contractual terms on termination and any payments made are fair to the individual and the Company.

The Remuneration Committee will determine the terms and conditions of service of executive directors. This includes agreeing the policy for authorising claims for expenses from the Chief Executive Officer and the Chairman, and within the terms of the agreed policy, recommending the total individual remuneration package of each executive director including, where appropriate, bonuses, incentive payments and share options. The Nomination Committee is responsible for ensuring all director appointments are considered by the Committee before their formal recommendation to the Board for approval.

Relations with shareholders

Communications with shareholders are very important and therefore are given a priority. The Company maintains a website, www.ntog.co.uk, for the purpose of improving information flow to shareholders as well as potential investors. It contains information about the Company's activities and annual and interim reports. Shareholders are welcome to make enquiries on any matters relating to the business and to their shareholdings. The Company encourages shareholders to attend the Annual Meeting, at which they will be given the opportunity to put questions to the Chairman and other members of the Board.

Internal financial control

The Board is responsible for establishing and maintaining the Company's system of internal controls and for reviewing their effectiveness. They are designated to safeguard the assets of the Company 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 the current time.

Profile of directors

Sir Adrian Blennerhassett, Non-Executive Chairman

Previous positions held by Sir Adrian (71) include General Manager for Claremount Oil & Gas Limited and Technical Director at Peninsula Petroleum Limited. More recently, he had 11 years' experience in corporate finance with Anglo European Amalgamations Limited and Chesham Amalgamations and Investments Limited. He studied geology at McGill University in Montreal, has an MSc in Geology from Imperial College, London, and an MBA from Cranfield School of Business Management.

Matt Lofgran, Chief Executive Officer

Matt Lofgran (36) has wide experience of business development in the energy, real estate and communications sectors. Prior to becoming CEO of Nostra Terra in July 2009, he was with Robson Energy, LLC, latterly as Vice President of International Business Development. In this capacity, he launched the oil and gas, field services and coal divisions, and was responsible for extending Robson Energy's activities into Mexico. Mr Lofgran holds a Bachelor of Business Management degree from the University of Phoenix and a Global MBA from Thunderbird School of Global Management.

Alden McCall, Chief Operating Officer

Alden Branine McCall (60) has over 25 years' experience of project management, business development, capital acquisition and consulting in oil and gas exploration and new production technologies. Prior to joining Nostra Terra, he was Principal and General Manager of Dallas-based AMX Consulting Services, LLC, delivering technical and commercial expertise to both public and private companies engaged in conventional and unconventional petroleum exploration and production. Mr McCall is a Certified Petroleum Geologist and is a member of the American Association of Petroleum Geologists, the Society of Petroleum Engineers, the Oklahoma Geological Society, the Fort Worth Geological Society and the Houston Geological Society.

Stephen Vaughan Oakes, Non-Executive Director

Stephen Oakes (55) has over 35 years' experience in financial markets and is a Fellow of the Securities Institute. He is a former Chief Executive Officer, HSBC Investment Management. Since 2003, he has worked with a number of smaller AIM and Plus Markets-quoted companies, initially with Alfred Henry Corporate Finance Limited and then through Falcon Securities (UK) Limited.

Independent auditors' report

to the shareholders of Nostra Terra Oil and Gas Company plc

We have audited the financial statements of Nostra Terra Oil and Gas Company plc for the year ended 31 December 2010, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of financial position, company statement of financial position, consolidated statement of cash flows, company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out in the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view, of the state of the Group's and Parent Company's affairs as at 31 December 2010 and of the Group's loss and Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with 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 properly prepared in accordance with the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Sanjay Parmar
SENIOR STATUTORY AUDITOR
For and on behalf of Jeffreys Henry LLP, statutory auditor

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

24 June 2011

Consolidated income statement

for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Revenue		137	33
Cost of sales		(256)	(247)
GROSS LOSS		(119)	(214)
Administrative expenses	5	(472)	(445)
OPERATING LOSS	5	**(591)**	**(659)**
Impairment of goodwill	9	–	(3,268)
Loan notes waived	16	–	25
Other income	21	–	61
LOSS BEFORE TAX		**(591)**	**(3,841)**
Tax (expense) recovery	6	–	–
LOSS FOR THE YEAR		**(591)**	**(3,841)**
Attributable to:			
Owners of the Company		**(591)**	**(3,841)**
Earnings per share expressed in pence per share:			
Continued operations			
Basic and diluted (pence)	8	(0.038)	(0.46)

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	2010 £000	2009 £000
Loss for the year	(591)	(3,841)
Other comprehensive income:		
Currency translation differences	–	–
Total comprehensive income for the year	(591)	(3,841)
Total comprehensive income attributable to:		
Owners of the Company	(591)	(3,841)

Consolidated statement of changes in equity

for the year ended 31 December 2010

	Share capital £000	Share premium £000	Translation reserves £000	Retained losses £000	Total £000
As at 1 January 2009	**424**	**3,927**	**12**	**(1,477)**	**2,886**
Shares issued	1,126	3,162	–	–	4,288
Share issue costs	–	(247)	–	–	(247)
Loss after tax for the year	–	–	–	(3,841)	(3,841)
As at 31 December 2009	**1,550**	**6,842**	**12**	**(5,318)**	**3,086**
Loss after tax for the year	–	–	–	(591)	(591)
As at 31 December 2010	**1,550**	**6,842**	**12**	**(5,909)**	**2,495**

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 occurs 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 2010

	Share capital £000	Share premium £000	Retained losses £000	Total £000
As at 1 January 2009	**424**	**3,927**	**(1,476)**	**2,875**
Shares issued	1,126	3,162	–	4,288
Share issue costs	–	(247)	–	(247)
Loss after tax for the year	–	–	(3,523)	(3,523)
As at 31 December 2009	**1,550**	**6,842**	**(4,999)**	**3,393**
Loss after tax for the year	–	–	(898)	(898)
As at 31 December 2010	**1,550**	**6,842**	**(5,897)**	**2,495**

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 2010

	Notes	2010 £000	2009 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	9	–	–
Other Intangibles	10	1,211	1,806
Property, plant and equipment			
– oil and gas assets	11	261	–
– others	11	–	4
		1,472	1,810
CURRENT ASSETS			
Trade and other receivables	13	794	30
Cash and cash equivalents	14	720	1,895
		1,514	1,925
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	176	292
Financial liabilities – borrowings	16	–	–
		176	292
NET CURRENT ASSETS		1,338	1,633
NON-CURRENT LIABILITIES			
Financial liabilities – borrowings	16	315	357
NET ASSETS		2,495	3,086
EQUITY AND RESERVES			
Called up share capital	17	1,550	1,550
Share premium	18	6,842	6,842
Translation reserves	18	12	12
Retained losses	18	(5,909)	(5,318)
		2,495	3,086

The financial statements were approved and authorised for issue by the Board of Directors on 24 June 2011 and were signed on its behalf by:

M B Lofgran
Director

Company registered number: 05338258

Company statement of financial position

31 December 2010

	Notes	2010 £000	2009 £000
ASSETS			
NON-CURRENT ASSETS			
Fixed asset investments	12	2,035	1,551
		2,035	1,551
CURRENT ASSETS			
Trade and other receivables	13	64	9
Cash and cash equivalents	14	541	1,891
		605	1,900
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	146	58
Financial liabilities – borrowings	16	–	–
		146	58
NET CURRENT ASSETS		459	1,842
NET ASSETS		2,494	3,393
EQUITY AND RESERVES			
Called up share capital	17	1,550	1,550
Share premium	18	6,842	6,842
Retained losses	18	(5,898)	(4,999)
		2,494	3,393

The financial statements were approved and authorised for issue by the Board of Directors on 24 June 2011 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 2010

	Notes	2010 £000	2009 £000
Cash flows from operating activities			
Cash (consumed) by operations	1	(446)	(485)
Net cash (consumed) by operating activities		(446)	(485)
Cash flows from investing activities			
Purchase of intangibles – new oil and gas properties		(460)	(1,551)
Purchase of plant and equipment		(269)	(5)
Net cash from investing activities		(729)	(1,556)
Cash flows from financing activities			
Issue of new shares		–	3,925
Borrowing		–	–
Net cash from financing activities		–	3,925
Increase/(decrease) in cash and cash equivalents		(1,175)	1,884
Cash and cash equivalents at beginning of year	14	1,895	11
Cash and cash equivalents at end of year		**720**	**1,895**
Represented by:			
Cash at bank	14	720	1,895

Notes to the consolidated statement of cash flows

for the year ended 31 December 2010

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

	2010 £000	2009 £000
Loss before tax for the year	(591)	(3,392)
Depreciation of property, plant and equipment	12	–
Amortisation of intangibles	–	–
Foreign exchange loss/(gains) non-cash items	(42)	3
Loan notes waived	–	25
Impairment of goodwill	–	3,268
Loan from participating interest written off	–	168
Expenses settled in shares	–	83
Contribution from director	–	(61)
Operating cash flows before movements in working capital	(621)	94
Decrease in receivables	291	40
(Decrease) in payables	(116)	(388)
Cash (consumed) by continuing operations	(446)	(254)

Company statement of cash flows

for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Cash (consumed) by operations	1	(306)	(474)
Net cash from operating activities		(306)	(474)
Cash flows from investing activities			
Interest received		–	–
Net cash from investing activities		–	–
Cash flows from financing activities			
Inter group loan (advances)		(1,044)	(1,571)
Issue of new shares		–	3,925
Net cash from financing activities		(1,350)	2,353
Increase/(decrease) in cash and cash equivalents		(1,350)	1,880
Cash and cash equivalents at beginning of year	14	1,891	11
Cash and cash equivalents at end of year		541	1,891
Represented by:			
Cash at bank	14	541	1,891

Notes to the company statement of cash flow

for the year ended 31 December 2010

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

	2010 £000	2009 £000
Loss before tax for the year	(899)	(3,522)
Impairment of cost of investments	560	3,296
Expenses settled in shares	–	83
Operating cash flows before movements in working capital	(339)	(143)
(Increase)/decrease in receivables	(55)	(2)
Increase/(decrease) in payables	88	(329)
Cash (consumed) by continuing operations	(306)	(474)

Notes to the financial statements

for the year ended 31 December 2010

GENERAL INFORMATION

Nostra Terra Oil and Gas Company plc is a company incorporated in England and Wales and quoted on the AIM market of the London Stock Exchange. The address of the registered office is disclosed on the contents 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 twelve 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 on pages 4 and 7 respectively. In addition note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current cash resources.

After making enquiries, the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued by the International Accounting Standards Board (IASB) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The Company has adopted the following new and amended IFRSs as of 1 January 2010:

- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

- IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The company will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has a similar useful economic life. The amendment will not result in a material impact on the company's financial statements.

- IAS 32 (amendment), 'Financial instruments: presentation – classification of rights issue', is effective from annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the company after initial application.
- IFRS 2, Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010. The IASB issued an amendment to IFRS2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The company adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the company.
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flows variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into such hedges.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for the company:

- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the company, as it has not made any non-cash distributions.
- IFRIC 18, 'Transfers of assets from customers', effective for transfers of assets received on or after 1 July 2009. This is not relevant to the company, as it has not received any assets from customers.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

- IAS 24 (Amendment), 'Related party transactions'. The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The company does not expect any impact on its financial position or performance.
- IFRIC 14 (Amendment), 'Prepayments of a minimum funding requirement'. The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the company.
- IFRS 9, 'Financial instruments: classification and measurement', as issued reflects the first phase of the IASB work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 might have an effect on the classification and measurement of the company's assets. At this juncture it is difficult for the company to comprehend the impact on its financial position and performance.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the company.

1. ACCOUNTING POLICIES continued

- Improvements to IFRS (issued in May 2010). The IASB issued improvement to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after 1 January 2011 or 1 July 2010. The amendments listed below, are considered to have a reasonable possible impact on the company:
  - IFRS 3 Business combinations
  - IFRS 7 Financial instruments: disclosures
  - IAS 1 Presentation of financial statements
  - IAS 27 Consolidated and separate financial statements.

The company expects no impact from the adoption of the above amendments on its financial position or performance.

Subsidiaries

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

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

Associates

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

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

Joint Activity Agreement

The Group's interest in the Joint Activity Agreement ("JAA") (see Note 10) is accounted for by proportionate consolidation. The Group combines its share of the JAA's individual income and expenses, assets and liabilities and cash flows on a line by line basis with similar items in the Group's financial statements. The Group recognises the portion of gains and losses on the sale of assets by the Group to JAA that is attributable to the other ventures. The Group does not recognise its share of profits or losses from JAA that result from the Group's purchase of assets from JAA until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

Intangible assets

Goodwill

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

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

Impairment of non-financial assets

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

Property, plant and equipment

Tangible non-current assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred. Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Plant and machinery – 20% on cost

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable value.

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

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of hydrocarbons and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised when the oil and gas produced is despatched and received by the customers.

Functional currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is mainly United States Dollars (US$). The financial statements are presented in Pounds Sterling (£), which is the Group's presentation currency.

1. ACCOUNTING POLICIES continued

ii) Transactions and balances

Foreign currency transactions are translated into the presentational currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

iii) Group companies

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

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

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

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

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differed from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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.

Segment reporting

The Group has adopted IFRS 8 Operating segments with effect from 1 January 2010. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. Following the adoption of IFRS 8, the identification of the Group's reportable segments has changed. See details in Note 2.

Cash and cash equivalents

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

Trade receivables

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

Trade payables

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

Borrowings

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

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

Financial Instruments

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

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

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

Fair values

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

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

Notes to the financial statements

for the year ended 31 December 2010

1. ACCOUNTING POLICIES continued

Share-based compensation

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

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

Share capital

Ordinary shares are classified as equity.

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

Oil and gas assets

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

Exploration and evaluation ("E&E") assets

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

Pre-licence costs

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

Exploration and evaluation ("E&E") costs

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

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

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

Treatment of E&E assets at conclusion of appraisal activities

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

Development and production assets

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

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

Depletion, amortisation and impairment of oil and gas assets

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

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

Commercial reserves

Commercial reserves are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Critical accounting estimates and judgments

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

a) Impairment of investments

Costs of investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates for each cash generating unit.

b) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.

c) Recoverability of exploration and evaluation costs

E&E assets are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgment as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to the asset in question, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value.

1. ACCOUNTING POLICIES continued

(d) Share based payments

Note 1 sets out the Group's accounting policy on share-based payments, specifically in relation to the share options and warrants that the Company has granted. The key assumptions underlying the fair value of such share-based payments are discussed in Note 22. The fair value amounts used by the Group have been derived by external consultants using standard recognised valuation techniques.

2. SEGMENTAL ANALYSIS

In prior years, segment information reported externally was analysed on the basis of one class of business, being oil and gas exploration, development and production and the sale of hydrocarbons and related activities; and in only one geographical area, Ukraine. However, information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is now more specifically focused on the different geographical location of the oil properties. The Group's reportable segments under IFRS 8 in the year are as follows:

Ukraine: a 25 per cent profit share in the onshore Oktyabrskoe oil field.

US mid-continent properties are located in the Central Kansas Uplift (CKU) and at the year end included the following:

(i) Hoffman: a 25 per cent working interest in five production wells and one salt water disposal well on the Hoffman property, located within the Trapp field in Barton County and Russell County, Kansas, plus a 50 per cent interest in an additional undeveloped 160 acres nearby, also within the Trapp field.

(ii) Bloom: a 50 per cent working interest in nine production wells and two salt water disposal wells on the Bloom property, located within the Chase-Silica field in Rice County, Kansas.

(iii) Boxberger: a 50 per cent working interest in 11 wells, including at least two salt water disposal wells, on the Boxberger property, located in Russell County, Kansas within the Gorham field.

(iv) Koelsch: a 50 per cent working interest in two production wells and one salt water disposal well in the Koelsch property, located in Stafford County, Kansas.

Liberty #1: a 7 per cent working interest (WI) before payout and 5 per cent WI after payout in the Liberty #1 exploratory well in Juab County, Utah, acquired in 2010.

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

	US mid-continent 2010 £	**Ukraine 2010 £**	**Head office 2010 £**	**Total 2010 £**
Segment results – 2010				
Revenue				
Total	133	–	4	137
Inter company	–	–	–	–
Revenue	133	–	4	137
Operating loss before depreciation, amortisation share-based payment charges and restructuring costs:	(712)	–	(8)	(720)
Depreciation of tangibles	(8)	–	–	(8)
Amortisation of intangibles	–	–	–	–
Operating loss	(587)	–	(4)	(591)
Loss on discontinued operations	–	–	–	–
Realised exchange loss	–	–	–	–
Other income	–	–	–	–
	(587)	–	(4)	(591)
Loss before taxation				(591)
Segment assets				
Property, plant and equipment	261	–	–	261
Intangible assets	1,211	–	–	1,211
Other assets	781	–	7	788
	2,253	–	7	2,260

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for the year ended 31 December 2010

3. EMPLOYEES AND DIRECTORS

	2010 £000	2009 £000
Wages and salaries – staff	–	16
Directors' fees	219	91
Social security costs	9	7
	228	114

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

	Number	Number
Directors	4	4
Operations	–	1
	4	5

	£000	£000
Directors' fees	219	91

4. NET FINANCE COSTS (RECOVERY)

	2010 £000	2009 £000
Finance income:		
Deposit account interest	–	–
Finance costs:		
Loan interest waived	–	–
Net finance costs/(recovery)	–	–

5. OPERATING LOSS FOR THE YEAR

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

	2010 £000	2009 £000
Auditors' remuneration (Company £18,545 – 2009: £13,962)	19	14
Depreciation of property, plant and equipment	8	48
Amortisation of intangibles	–	153
Loss on disposal of fixed assets	4	–
Foreign exchange differences	(3)	3

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

	2010 £000	2009 £000
Employment costs	78	23
Directors fees	219	91
Consultancy fees	43	29
Travelling and entertaining	53	12
Legal and professional fees	87	75
Establishment costs	–	4
Foreign exchange differences	(3)	3
Amount due from participating interest written off	(37)	168
Other expenses	32	40
	472	445

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for the year ended 31 December 2010

6. INCOME TAX EXPENSE

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

	2010 £000	2009 £000
Current tax:		
Corporation tax	–	–
Overseas corporation tax/(recovery)	–	–
Total	–	–

	2010 £000	2009 £000
Loss before tax	(591)	(3,841)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28% (2009 – 28%)	(166)	(1,075)
Effects of:		
Non-deductible expenses	–	–
Other tax adjustments	166	1,075
Foreign tax	–	–
	166	1,075
Current tax charge	–	–

At 31 December 2010 the Group had excess management expenses to carry forward of £1,318,500 (2009 – £1,124,500) and trading losses of £860,000 (2009 – £666,000). The deferred tax asset at 26% (2009 – 28%) on these tax losses of £223,600 (2009 – £315,000) has not been recognised due to the uncertainty of recovery.

7. LOSS OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £898,477 (2009 – £3,523,000).

8. EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group had two classes of dilutive potential ordinary shares, being those share options granted to employees and suppliers where the exercise price is less than the average market price of the Group's ordinary shares during the year, and in 2009 Convertible Loans.

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

	2010	2009
EPS – loss		
Loss attributable to ordinary shareholders (£000)	(591)	(3,841)
Weighted average number of shares	1,549,600,913	827,205,057
Weighted average number of shares on diluted basis	1,829,943,089	943,415,767
Continued operations:		
Basic and diluted EPS – loss (pence)	**(0.038)**	**(0.46)**

9. GOODWILL

Group	**£000**
COST	
At 1 January 2009 and 31 December 2009	4,211
Additions	–
At 31 December 2010	4,211
PROVISION	
At 1 January 2009	943
Charge for the year	3,268
At 31 December 2009	4,211
Charge for the year	–
At 31 December 2010	4,211
CARRYING VALUE	
At 31 December 2010	–
At 31 December 2009	–

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

Notes to the financial statements

for the year ended 31 December 2010

10. OTHER INTANGIBLES

Group

COST	Licence	Exploration and evaluation assets	Total
	£000	£000	£000
At 31 December 2009	621	1,695	2,316
Transfer to other receivables	–	(1,055)	(1,055)
Additions	5	455	460
Disposals	–	(510)	(510)
At 31 December 2010	626	585	1,211
PROVISION			
At 1 January 2009	–	(357)	(357)
Charge for the year	–	(153)	(153)
At 31 December 2009	–	(510)	(510)
Disposals	–	510	510
At 31 December 2010	–	–	–
CARRYING VALUE			
At 31 December 2010	626	585	1,211
At 31 December 2009	621	1,185	1,806

US mid-continent acquisition

On 15 July 2009, the Company entered into definitive agreements with Hewitt Petroleum, Inc. ("HPI") for the purchase and exploration of three properties in Kansas, USA for an initial consideration of US$235,000, which has been paid in cash with US$25,000 of the balance due within 60 days of execution of definitive agreements ("Execution"), US$425,000 within 90 days of Execution and US$100,000 to be satisfied by the assignment by Mr Lofgran to HPI of his working interest in another property known as the Perth field, where HPI is also a partner.

The status of payments made in respect of the acquisition of the licences in the US mid-continent oil properties is shown below:

Oil property	**Boxberger**	**Bloom**	**Hoffman**
Interest	**50%**	**50%**	**25%**
Total acquisition costs – (US$)	230,000	325,000	400,000
Total acquisition costs – (£)	139,242	199,680	245,760
Amount paid up to 31 December 2010 – (£)	139,242	199,680	245,760
Amount unpaid at 31 December 2010 – (£)	–	–	–

The Group assesses at each reporting date whether there is an indication that the intangible assets may be impaired, by considering the net present value of discounted cash flows forecasts. If an indication exists an impairment review is carried out. At the year end, the directors are of the opinion that there has been no impairment in value.

On 16 May 2011, the company entered into an agreement with Hewitt Petroleum, Inc. (now Richfield Oil & Gas Company) and Hewitt Energy Group, Inc. (together the "HPI Entities").

The principal terms of the agreement, which on closing led to termination of the operational relationship between the Company and the HPI Entities, were as follows:

Nostra Terra acquired 100% working interest (WI) in, and assumed operatorship of, the producing Bloom property;

Nostra Terra's existing 75% WI before payout (50% WI after payout) in the Boxberger property, where operations remain suspended pending the resolution of title issues, was assigned to the HPI Entities;

Nostra Terra assigned to the HPI Entities its interests in all other HPI-operated assets (including Hoffman, the undeveloped adjoining acreage within the Trapp field and the Koelsch property) and the Liberty #1 exploration well;

Nostra Terra received a US$1.3 million note to be secured by other assets of the HPI Entities (the "HPI Note"). The HPI Note will mature on 31 December 2011 and accrue interest at 10% per annum. An early settlement discount of 3% per 30 day period prior to the maturity date is available to the HPI Entities;

In the expectation that HPI's successor, Richfield Oil & Gas Company ("Richfield") will become publicly traded prior to the expiration of the HPI Note, Nostra Terra has the right, but not the obligation, to convert the principal amount outstanding under the HPI Note into shares of Richfield at US$0.25 per share; and

Richfield has issued Nostra Terra a Warrant, exercisable in whole or in part, to subscribe for up to 6 million shares of Richfield common stock with an aggregate exercise price of US$1.5 million, at a strike price of US$0.25 per share, expiring one year after admission to trading on the Toronto Stock Exchange or the TSX Venture Exchange. The warrant will be transferable, subject to the provisions of the US Securities Act 1933 (as amended).

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for the year ended 31 December 2010

The review of impairment for US mid-continent oil properties is based on Competent Person's Reports on the hydrocarbons reserves prepared by W.A. Alexander Jr. Oil and Gas Consulting:

Oil property	**Bloom***
Interest	**50%**
Gross:	
Oil – bbl	2,260,800
Sales gas – MMcf	1,096
Net:	
Oil – bbl	1,019,290
Sales gas – MMcf	494
Expected net value	$45.9m
NPV at 10%	$23.8m
Date of report	15/10/09

*100% since 16 May 2011.

Glossary of terms:

bbl – barrels

MMcf – one million cubic feet

Reserves – the estimated quantities of oil and gas that geological and engineering data indicate, with reasonable certainty, to be recoverable in future years from known reservoirs under existing economic and operating conditions.

NPV – net present value

On 18 February 2010, the Group via its wholly-owned subsidiary, Nostra Terra Overseas Ltd ("NTOL"), entered into a contract with Crimea Nadra Invest (CNI) relating to its assets in Ukraine.

Under the terms of the contract, CNI acquired all the rights and obligations associated with the Joint Activity Agreement of 27 January 2001 (the "JAA") covering NTOL's operations in Ukraine and in particular the Oktyabrskoe field licence, while NTOL retains a right to payment of 25 per cent of any net profits generated by CNI from the JAA, which runs for a period of 25 years from 27 January 2001. The consideration for the transaction is to be settled by the deferred payment from future oil sale proceeds of 360,000 Ukraine hryvnia (approximately £29,000), which will be applied towards general working capital.

11. PROPERTY, PLANT AND EQUIPMENT

Group

COST	Plant & equipment – oil and gas assets £000	Plant & equipment – other assets £000	Total £000
At 1 January 2009	271	5	276
Additions	–	–	–
At 31 December 2009	271	5	276
Disposals	(271)	(5)	(276)
Additions	269	–	269
At 31 December 2010	269	–	269
PROVISION			
At 1 January 2009	271	1	272
Charge for the year	–	–	–
At 31 December 2009	271	1	272
Dispositions	(271)	(1)	(272)
Charge for the year	8	–	8
At 31 December 2010	8	–	8
CARRYING VALUE			
At 31 December 2010	261	–	261
At 31 December 2009	–	4	4

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for the year ended 31 December 2010

12. FIXED ASSET INVESTMENTS

Company

COST	**Investment in subsidiary £000**	**Loan to subsidiaries £000**	**Total £000**
At 1 January 2009	4,409	413	4,822
Additions	–	1,571	1,571
At 31 December 2009	4,409	1,984	6,393
Additions	–	1,044	1,044
At 31 December 2010	4,409	3,028	7,437
PROVISION			
At 1 January 2009	1,547	–	1,547
Charge for the year	2,862	433	3,295
At 31 December 2009	4,409	433	4,842
Charge for the year	–	–	–
At 1 January 2010	4,409	433	4,842
Charge for the year	–	560	560
At 31 December 2010	–	993	5,402
CARRYING VALUE			
At 31 December 2010	–	2,035	2,035
At 31 December 2009	–	1,551	1,551

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

The details of the subsidiaries are as set out below:

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

On 24 August 2010, the company subscribed to 1 ordinary share of $1 each in New Horizons Energy 1, LLC, USA ("NHE"), which represents the total paid up share capital of NHE.

The results of the subsidiaries as at 31 December 2010 are as follows:

	2010 £000	2009 £000
NTOL		
Aggregate capital and reserves	(1,249)	(926)
Loss for the year	(82)	(323)
NHE		
Aggregate capital and reserves	–	–
Loss for the year	(290)	–
Goldhawk Oil & Gas LLC		
Aggregate capital and reserves	(160)	–
Loss for the year	–	–

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Current:				
Other receivables	785	2	58	–
Other taxes receivables	9	28	6	9
	794	30	64	9

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

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Bank current accounts	720	1,895	541	1,891

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15. TRADE AND OTHER PAYABLES

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£000	**£000**	**£000**	**£000**
Current:				
Trade payables	29	–	–	–
Accruals and deferred income	147	88	146	58
Other payables	–	204	–	–
	176	292	146	58

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.

16. FINANCIAL LIABILITIES – BORROWINGS

Maturity of the borrowings is as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£000	**£000**	**£000**	**£000**
Repayable within one year on demand:				
Convertible loan notes	–	–	–	–
	–	–	–	–
Repayable between one and five years:				
Convertible loan notes	–	–	–	–
Loan notes	315	357	–	–
	315	357	–	–
	315	357	–	–

On 25 May 2007, the Company issued pursuant to the Share Purchase Agreement a promissory note in the sum of US$1,838,928 to be issued to the Vendors of Nostra Terra (Overseas) Limited.

The Company will be obliged to repay the sums due under the terms of the promissory note relating to the Ukraine properties quarterly in arrears, based on the Group's cash flow from all of its wells which have been producing for at least 30 days for the most recently completed quarter. No repayments shall be made until the net income from such wells exceeds US$225,000 for the relevant quarter.

However, on 24 December 2009, the Company agreed with its wholly owned subsidiary, Nostra Terra (Overseas) Limited ("NTOL"), and Nikea Nominees Limited and Nikea Trustees Limited (together "Nikea") to an assignment and variation of the promissory note dated 25 May 2007 in the sum of US$1,838,928, whereby the amount due from the Company to Nikea is reduced by 75% to US$459,732 (the "Nikea Sum") and the obligation to repay the Nikea Sum is assigned to NTOL. In addition, interest will no longer be payable on the Nikea Sum, and the Nikea Sum will be due for repayment on or before 30 November 2012 with no contingency based on the cash flow from the Company's wells. A provision allowing the parties to assign the promissory note has also been inserted.

On 25 June 2007, the Company issued £327,679.38 of zero coupon Creditors Convertible Loan Stock 2009 to the Nostra Terra (Overseas) Limited Vendors. The principal amount of the Creditors Convertible Loan Stock is convertible at the rate of one ordinary share for each 2p of the principal amount of the stock in the period to 25 June 2009. The stock was to be repaid on or before 31 December 2009. The Company would have been able to give notice at any time to convert any stock at 120% of its nominal value.

On 25 June 2007, the Company issued £88,483 of zero coupon Creditors Non-convertible Loan Stock 2009, to be issued to the Vendor under the Acquisition Agreement. The Redeemable Loan Stock may be redeemed at any time by the Company and was repayable on or before 31 December 2009.

On 30 June 2009, the Company reached agreement with all holders of outstanding loan notes issued in 2007 whereby the outstanding £252,951 (together with an additional £4,000 owing to one of the loan note holders) is settled by the payment of £35,131 in cash and the issue of 110,910,200 new ordinary shares at an effective issue price of 0.2 pence per ordinary share.

Loan notes issued by Nostra Terra (Overseas) Limited

On 25 May 2007, a promissory note was issued to Nikea and Masterworks (Overseas) Limited ("Masterworks") in the sum of US$436,460, which bears interest at 4.9% per annum.

Repayment of the sums due under the terms of this promissory note is to be quarterly in arrears based on cash flow from the group's wells which have been producing for at least 30 days for the most recently completed quarter. No repayments shall be made until the net income from such wells exceeds US$225,000 for the relevant quarter.

On 24 December 2009, NTOL agreed with Nikea and Masterworks to a variation of the promissory note dated 25 May 2007 as partially assigned by deed of assignment dated 14 November 2007 in the total sum of US$436,460, whereby the amount due from NTOL to Nikea is reduced from US$194,161 by 75% to US$48,540 and the amount due from NTOL to Masterworks is reduced from US$242,299 by 75% to US$60,575 (together the "Nikea/Masterworks Sum"). In addition, interest will no longer be payable on the Nikea/Masterworks Sum and the Nikea/Masterworks Sum will be due for repayment on or before 30 November 2012 with no contingency based on the cash flow from the Company's wells.

On 10 May 2006, a promissory note in the sum of US$159,744.50 was issued to Ucoco Energy, Inc ("Ucoco"). On 24 December 2009, NTOL agreed with Ucoco to a variation of the promissory note dated 10 May 2006 as amended by deed of variation dated 25 May 2007 in the sum of US$159,745, whereby the amount due from NTOL to Ucoco is reduced by 75% to US$39,936 (the "Ucoco Sum"). In addition, interest will no longer be payable on the Ucoco Sum and the Ucoco Sum will be due for repayment on or before 30 November 2012 with no contingency based on the cash flow from the Group's wells.

On 8 October 2010, pursuant to a deed of cancellation executed between Ucoco and the Company's wholly-owned subsidiary Nostra Terra (Overseas) Limited ("NTOL"), a promissory note under which NTOL had agreed to pay the sum of US$39,936 to Ucoco has lapsed and been terminated in its entirety.

17. CALLED UP SHARE CAPITAL

Authorised:

Number:	Class:	Nominal value:	**2010 £000**	**2009 £000**
2,500 million (2009 – 2,500 million)	Ordinary	0.1p	2,500	2,500

Allotted, called up and fully paid:

Number:	Class:	Nominal value:	**2010 £000**	**2009 £000**
1,549,600,583/1,549,600,583	Ordinary	0.1p	1,550	1,550

18. RESERVES

Group	**Translation reserve £000**	**Retained losses £000**	**Share premium £000**	**Total £000**
At 1 January 2009	12	(1,477)	3,927	2,462
Shares issued in the year	–	–	3,162	3,162
Share issue costs	–	–	(247)	(247)
Loss for the year	–	(3,841)	–	(3,841)
At 31 December 2009	12	(5,318)	6,842	1,536
Loss for the year	–	(591)	–	(591)
At 31 December 2010	12	(5,909)	6,842	945

Company	**Retained losses £000**	**Share premium £000**	**Total £000**
At 1 January 2009	(1,476)	3,927	2,451
Shares issued in the year	–	3,162	3,162
Loss for the year	(3,523)	(247)	(3,770)
At 31 December 2009	(4,999)	6,842	1,843
Loss for the year	(899)	–	(899)
At 31 December 2010	(5,898)	6,842	944

19. RISK AND SENSITIVITY ANALYSIS

The Group's activities expose it to a variety of financial risks: interest rate risk, liquidity risk, foreign currency risk, capital risk and credit risk. The Group's activities also expose it to non-financial risks: market, legal and environment risk. The Group's overall risk management programme focuses on unpredictability and seeks to minimise the potential adverse effects on the Group's financial performance. The Board, on a regular basis, reviews key risks and, where appropriate, actions are taken to mitigate the key risks identified.

Capital risk

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

Market risk

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

- Fluctuations in the global economies could disrupt the Group's ability to operate its business in 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 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 pound 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.

Foreign currency risk continued

The net unhedged financial assets and liabilities of the Group that are denominated in its functional currency are as follows:

Group	Financial assets		Financial liabilities	
	2010	2009	2010	2009
	£000	£000	£000	£000
Ukraine Hryvnia (UAH)	–	24	–	30
United States Dollars (US$)	–	–	–	561
	–	24	–	591

The foreign exchange rate affecting the Group is as follows:

Group	Income statement		Balance sheet	
	2010	2009	2010	2009
	£	£	£	£
Ukraine Hryvnia (UAH)	0.0815	0.07735	0.0815	0.07735
United States Dollars (US$)	0.6413	0.64	0.6413	0.63

Volatility of crude oil prices

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

	Average price		
	2010	2009	2008
Per barrel – US$	77.68	61.95	91.48
Per barrel – £	49.82	39.65	49.40

Liquidity risk

The Group expects to fund its exploration and development programme, as well as its administrative and operating expenses throughout 2011, principally using existing working capital and expected proceeds from the sale of future crude oil production. The Group had a bank balance of approximately £720,000 at 31 December 2010.

20. FINANCIAL COMMITMENTS

Operating lease commitments

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

Capital commitments

The capital expenditure contracted for each oil property at the reporting period date but not yet incurred is as follows:

	2010	2009
	£	£
Oil property		
Koelsch	–	145,045
Hoffman	–	211,916
Bloom	–	638,764
Boxberger	–	–
	–	995,725

21. RELATED PARTY TRANSACTIONS

Group

During the year, the Group advanced loans of £6,875 (2009 – £1,000) and charged management fees of £29,300 (2009 – £34,200) to JAA in Ukraine (see Note 10). As at 31 December 2010, the outstanding loan balance due from JAA was £nil (2009 – £208,000).

N D Smith, who was a director of the Company up to 10 January 2009, is a shareholder and director of Masterworks and Ucoco. The transactions entered into with those companies are disclosed in Note 16.

B W Courtney, who was a director of the Company up to 30 June 2009, has a controlling interest in Ucoco. The transactions entered into with Ucoco are disclosed in Note 16.

On 15 July 2010, as part of the consideration for the acquisition of the Bloom property, Matt Lofgran gifted the Company £61,440 in respect of assignment of his working interest in the Perth field to HPI amounting to $100,000.

On 31 December 2010, a provision of £168,475 (2009 – £nil) was made against the outstanding loan amount due from JAA. The net balance at the year end was £nil (2009 – £206,752).

Company

During the year, the Company advanced a loan of £20,000 (2009 – repaid £17,000) to NTOL. At the year end, the Company made a provision of £433,000 (2009 – £nil) against the outstanding loan balance due from NTOL. The net amount due to the Company from NTOL after provision at the year end was £nil (2009 – £413,000).

During the year, the Company advanced a loan of £1,044,000 (2009 – £nil) and charged management fees of £50,520 (2009 – £nil) to NHE. At the year end, the Company made a provision of £560,000 (2009 – £nil) against the outstanding loan balance due from NHE. The net amount due to the Company from NHE after provision at the year end was £534,520 (2009 – £nil).

22. SHARE-BASED PAYMENTS

There is no charge for share-based payments as the amount is not material.

The details of options and warrants are as follows::

	2010		2009	
	Number of options and warrants	Weighted average exercise price	Number of options and warrants	Weighted average exercise price
		Pence		Pence
Outstanding at the beginning of the year	296,509,173	0.17	25,100,000	2.0
Granted – 27 August 2009	–	–	4,666,667	0.15
Granted – 30 June 2009	–	–	280,342,506	0.1
Granted – 1 February 2008	–	–	–	–
Exercised – 18 February 2008	–	–	–	–
Expired	–	–	–	–
Expired	–	–	–	–
Cancelled	–	–	(13,600,000)	2.0
Balance carried forward	296,509,173	0.17	296,509,173	0.17

The options and warrants outstanding at 31 December 2010 are as follows:

	Issue date	End date	Exercise price	No of warrants
'C' Warrants				
Religare Capital Markets	25/06/2007	30/04/2012	2p	4,000,000
				4,000,000
Warrants				
M B Lofgran*	30/06/2009	30/06/2012	0.1p	280,342,506
Alexander David Securities Ltd	27/08/2009	27/08/2011	0.15p	4,666,667
A B McCall	22/06/2010	21/06/2015	0.52p	10,000,000
A B McCall	22/06/2010	21/06/2015	0.75p	10,000,000
A B McCall	22/06/2010	31/12/2015	0.75p	20,000,000
				325,009,173
				329,009,173

*62,500,000 of these vested and became capable of exercise in February 2010, and were exercised in February 2011.

The fair values of the options granted have been calculated using the Black-Scholes model assuming the inputs shown below:

	22 June 2010	30 June 2009	27 August 2009	2 February 2008
Share price at grant date	0.47p	0.2p	0.3p	0.16p
Exercise price	0.52p	0.1p	0.15p	2.0p
Option life in years	5 years	3 years	2 years	7 years
Risk free rate	3.5%	3.5%	3.5%	3.5%
Expected volatility	10%	10%	10%	10%
Expected dividend yield	0%	0%	0%	0%
Fair value of option	0p	0.09p	0.08p	0p

23. CONTINGENT LIABILITIES AND GUARANTEES

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

24. ULTIMATE CONTROLLING PARTY

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

25. EVENTS AFTER THE REPORTING PERIOD

On 17 January 2011, the Company granted options to subscribe for 3,000,000 ordinary shares of 0.1p each to Mr Stephen Oakes, exercisable at any time until 14 January 2014 (subject to extension if the Company is then in a close period) at a price of 0.37 pence per share, approximating to the average closing share price of NTOG over the 30 day period prior to grant. Mr Oakes has no other options or warrants over NTOG ordinary shares and is interested in 14,166,666 NTOG ordinary shares, representing approximately 0.88 per cent of the Company's issued ordinary share capital, as enlarged by the warrant exercise above.

On 20 June 2011, the Company entered into an agreement with Plainsmen Partners LLC ("Plainsmen Partners") to acquire a 16.25% working interest in the Verde prospect, located in south-eastern Colorado.

The leases cover approximately 636 net acres in which an initial test well will be drilled into the Mississippian formation to a projected total depth of 5,300 feet. The total estimated cost of the well is US$1,131,691, of which Nostra Terra's estimated portion is US$183,900. The net revenue interest of Nostra Terra's 16.25% working interest is 13.41%. Drilling of the well is expected to begin during Q3, 2011.

Notes

Nostra Terra

OIL & GAS COMPANY PLC