Nostra Terra

OIL & GAS COMPANY PLC

ANNUAL REPORT 2009

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Company information

Directors	Sir Adrian Blennerhassett (Non-executive Chairman) Matt Lofgran (Chief Executive Officer) Stephen Oakes (Non-executive Director)
Secretary	International Registrars Limited
Registered office	Finsgate 5-7 Cranwood Street London EC1V 9EE
Registered number	05338258 (England and Wales)
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

Highlights

- New growth strategy introduced and new CEO appointed in mid-year
- Interests acquired in mature oil and gas assets in Kansas, with estimated total proved reserves (gross) of 4.75 million barrels of oil and 2.3 billion cubic feet of natural gas
- JV formed with Hewitt Petroleum Inc to redevelop the leases
- Operating loss of £0.6 million (2008: £1.3 million)
- Additional capital of £3.925 million (pre-expenses) raised through three placings
- First oil production from new assets announced in February 2010
- Ukrainian assets transferred post year-end, with Nostra Terra retaining a right to 25% of any future net profits

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 2009.

It is no exaggeration to state that this was a transformational year for the company. It began with little or no prospect of achieving viable production from our investment in the Oktyabrskoe field, following disappointing well results and the Ukrainian financial crisis that was prompted by the severe global economic downturn. The year ended with a new strategic direction for the company, a new CEO and a new asset base from which we expect to grow significantly in both scale and profitability in the future.

The new strategy was adopted following the appointment of Matt Lofgran as Chief Executive Officer in July 2009. Our goal now is to generate above-average, sustainable returns for our shareholders by acquiring and managing a carefully targeted portfolio of oil and gas assets to which we can add further value through innovative technology and commercial expertise.

Our initial focus in pursuing that objective has been the mature hydrocarbon region of the US mid-continent, where we acquired and commenced redevelopment of a number of properties in the second half of the year. Matt Lofgran's review below provides details of the acquired assets and the work that has been accomplished on them to date.

Financially too, the company is now on a much sounder footing than it was at the start of the reporting period. Net cash at the year-end amounted to £1.895 million following a series of three share placings during the second half of 2009, while the debt reconstruction announced in July extinguished all debt in Nostra Terra Oil and Gas Company plc.

The financial results for the 12-month period reflect the disappointing outcome in Ukraine, together with costs incurred as the company began to acquire and develop its North American assets. The Board also considered it prudent to write down the value of its investment in Ukraine, resulting in an exceptional charge of £3.268 million. The company recorded an operating loss of £0.6 million for the 12-month period compared to a loss of £1.3 million in 2008.Overall the company generated a loss during 2009 of £3.841 million.

The Board is greatly encouraged by the progress that has been made in implementing Nostra Terra's ambitious new strategy. I look forward to updating you in future reports on our continuing transformation into a growing and profitable exploration and production company.

Sir Adrian Blennerhassett
Chairman

28 May 2010

Chief Executive's review

The year ended 31 December 2009 was one of major change for Nostra Terra Oil and Gas Company plc.

The impact of the severe global downturn was felt by virtually every company in every industry. Investment in the development of oil and gas resources, and consequently the market value of such assets, fell sharply around the world. For Nostra Terra, which began the year focused entirely on the redevelopment of the large but geologically complex Oktyabrskoe field in Ukraine, the situation became unsustainable after the Ukrainian financial crisis left the company facing significantly higher royalties and a much lower selling price for any oil it was able to produce.

Yet even the severest crisis brings with it opportunity – in this case the possibility of acquiring assets that would have been prohibitively expensive prior to the worldwide recession. Following my appointment, the Board embarked on a new strategy to identify, evaluate and acquire oil and gas assets in the US mid-continent, and potentially other mature hydrocarbon-bearing regions, where operating costs and geological risk are relatively low, and where production can be enhanced using advanced recovery technologies.

In order to begin implementing this new growth strategy, Nostra Terra raised £390,000 (before expenses) in June 2009 through a placing of 390,000,000 new ordinary 0.1p shares at par value. This was followed in August 2009 by a placing of 233,333,333 shares at 0.15p, raising £350,000 pre-expenses. Shortly before the financial year end, the company raised a further £3.185 million pre-expenses through a placing of 318,500,000 shares at 1p per share.

In July 2009, we entered into definitive agreements with Hewitt Petroleum Inc (HPI), an established operator in the US mid-continent, for the purchase and development of the Hoffman and Bloom oil and gas properties in the Central Kansas Uplift (CKU), with an option (subsequently exercised post year-end) to acquire an interest in a third property, Koelsch.

Each of these mature properties contains existing infrastructure and, more importantly, proven reserves with significant upside potential. Nostra Terra and HPI formed a joint venture company to hold and manage the leases, with HPI continuing to act as operator and Nostra Terra providing funding for the agreed development plan.

The company added to its new US portfolio in August 2009, with the acquisition of a 50% interest in the Boxberger property, also located within the CKU. Details of the Hoffman, Bloom and Boxberger properties are included in the table below.

Property	**Hoffman**	**Bloom**	**Boxberger**
Nostra Terra working interest	25%	50%	50%
Location	Barton County and Russell County, Kansas	Rice County, Kansas	Russell County, Kansas
Field	Trapp	Chase-Silica	Gorham
Existing infrastructure	5 production wells (2 plugged), 1 salt water disposal (SWD) well	9 production wells, 2 SWD wells	11 wells, including at least 2 SWD wells
Estimated gross reserves	Total proved reserves of 834,000 barrels of oil and 404.5 million cubic feet of gas, excluding any probable reserves	Total proved reserves of 2.26 million barrels of oil and 1.1 billion cubic feet of gas, excluding any probable reserves	Total proved reserves of 1.66 million barrels of oil and 804.7 million cubic feet of gas, excluding any probable reserves

Field work on the Boxberger property began immediately following its acquisition. In October 2009, the first of the existing production wells to be re-entered encountered commercially significant quantities of additional oil in two zones that had not previously been produced. The following month, HPI completed its funding requirements for redevelopment of Hoffman, enabling field work to commence on that property also.

Post year-end

Kansas suffered its worst winter for many years, and the extreme weather conditions throughout January and much of February 2010 severely hampered our development activity, as they did for other oil and gas operators in the region.

As the weather slowly improved towards the end of March, the number of rigs on the company's properties was increased to five in order to make up for the unavoidable downtime. At the time of writing this review, two producing wells have been brought on stream on the Boxberger property, two on Hoffman and three on Bloom and combined production rates are currently 73 bopd (gross).

Since the end of the reporting period, we have also been able to further upgrade our asset portfolio. In February 2010, we signed an agreement with Crimea Nadra Invest (CNI) relating to our original assets in Ukraine, whereby CNI assumed all rights and obligations associated with the Joint Activity Agreement (JAA) of 27 January 2001 covering Nostra Terra Overseas Ltd's (NTOL's) operations in Ukraine and in particular the Oktyabrskoe field licence, while NTOL retains a right to 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.

We believe this is an excellent outcome for Nostra Terra: CNI, with its local expertise and relationships, is well positioned to unlock additional value from the Oktyabrskoe reservoir, while we are now able to focus all of the company's management and financial resources on our primary objective of achieving profitable and sustainable growth in regions of relatively low geological and political risk.

Also in February 2010, the company doubled its gross acreage within the Trapp field with the acquisition of an additional 160 acres close to the Hoffman property. This new lease was acquired jointly with HPI, with each party owning 50%.

Finally, in March 2010, Nostra Terra extended its search for oil and gas in prospective regions of the US when it acquired a 7% working interest (WI) before payout and 5% WI after payout in the Liberty #1 exploratory well in Juab County, Utah. Other participants in the Liberty #1 well are HPI, which is also operator of the well, and Freedom Oil & Gas Inc. The prospect lies on the Paxton thrust, six miles west of the Gunnison thrust where Wolverine Gas & Oil Corp. has made two major overthrust oil discoveries.

The company had net cash balances on 28 May 2010 of £1.215 million.

Outlook

Despite the severe weather delays incurred since year-end, and the fact that there is still considerable work to be done before Nostra Terra achieves significant and sustainable oil production, I am confident that our new direction will deliver substantial long-term value for our shareholders. The company is now cash flow positive operationally on the basis of current production and pay-out levels.

During 2009, I believe we laid the foundations on which to build a very profitable oil and gas exploration and production company. In the year ahead, we will continue to enhance the performance and value of our assets in the CKU, while maintaining the tightest possible cost control across all our activities.

With cash reserves available for further selective expansion, Nostra Terra is well positioned to take advantage of the ongoing and exciting opportunities we see to acquire additional assets and to develop mutually beneficial relationships with other proven operators in areas of relatively low geological and economic risk.

Matt Lofgran
Chief Executive Officer

28 May 2010

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 2009.

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

Due to the stage in the Group's development in the year, the key performance indicators were the level of the proven hydrocarbons reserves; see below.

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 risks in Ukraine and the US mid-continent, and also political and economic risks in Ukraine.

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

Interest	Boxberger 50%	Bloom 50%	Hoffman 25%
Gross:			
Oil – bbl	1,659,191	2,260,800	834,000
Sales gas – MMcf	805	1,096	405
Net:			
Oil – bbl	676,762	1,019,290	162,630
Sales gas – MMcf	328	494	80
Expected net value	$35.8m	$45.9m	$6.2m
NPV at 10%	$18.5m	$23.8m	$3.3m
Date of report	20/08/09	15/10/09	05/12/09

Below is the summary of the Competent Person's Report on the hydrocarbons reserves in Ukraine prepared by Trimble Engineering Associates Limited, dated 2 April 2007, which was used as part of the Company's readmission to AIM in July 2007:

	December 2009 Group's interest net AR	December 2008 Group's interest net AR
Oil – Mbbl	34	34
Sales gas – MMcf	4,406	4,406
Condensate – Mbbl	189	189

Glossary of terms:

bbl – barrels; Mbbl – thousand barrels

MMcf – one million cubic feet

Condensate – liquid hydrocarbons produced with natural gas which are separated from it by cooling, expansion and various other means.

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.

RESULTS AND DIVIDENDS

The loss for the year was £3,841,000, which has been allocated against reserves. No dividends will be distributed for the period ended 31 December 2009.

DIRECTORS

The following directors have held office since 1 January 2009:

A M Blennerhassett
M B Lofgran (appointed 30 June 2009)
S V Oakes
B W Courtney (resigned 30 June 2009)
G G MacNeil (resigned 24 July 2009)
N D Smith (resigned 10 January 2009)

Sir Adrian Blennerhassett will retire by rotation at the Company's forthcoming Annual General Meeting under the Articles of Association of the Company and, being eligible, offers himself for re-election.

The beneficial interests of the directors holding office on 31 December 2009 in the issued share capital of the Company were as follows:

	31.12.09		**01.01.09**	
	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	0.4%	–	_
M B Lofgran	15,000,000	1.0%	–	_
S V Oakes	14,166,666	0.9%	8,333,333	2%

The numbers of options outstanding to the directors at 31 December 2009 are as follows:

	31.12.09 No of warrants of 0.1p each	**01.01.09 No of warrants of 0.1p each**
A M Blennerhassett	–	2,000,000
M B Lofgran*	280,342,506	_
S V Oakes	–	2,000,000

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

SUBSTANTIAL SHAREHOLDERS

As at 21 May 2010, 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
JIM Nominees Limited	231,175,142	14.92%
Barclayshare Nominees Limited	200,636,810	12.95%
TD Waterhouse Nominees (Europe) Limited (SMKTNOMS)	172,329,790	11.12%
HSDL Nominees Limited	122,330,510	7.89%
HSDL Nominees Limited (IWEB)	114,235,880	7.37%
L R Nominees Limited	81,846,492	5.28%
James Capel (Nominees) Limited	73,220,874	4.63%
TD Waterhouse Nominees (Europe) Limited (Canada)	62,113,751	4.73%
Share Nominees Limited	58,634,894	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 18 February 2010, the Company's 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.

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 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.

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. Please refer to Note 1 in 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 and Article 4 of the IAS regulation. 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

28 May 2010

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 one executive director and two non-executive directors. N D Smith resigned on 10 January 2009, B W Courtney resigned on 30 June 2009 and G G MacNeil resigned on 24 July 2009. The directors' biographies demonstrate a range of relevant experience.

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

Sir Adrian (70) holds a Master's Degree of Geology from Imperial College, London and an MBA from Cranfield School of Business Management. Sir Adrian has previously held positions as general manager for Claremount Oil & Gas Ltd and as technical director at Peninsula Petroleum Ltd. He has experience of corporate finance and securities activities, and more recently had 11 years' experience in corporate finance including mergers and acquisitions with Anglo European Amalgamations Limited and Chesham Amalgamations and Investments Limited.

Matt Lofgran, Chief Executive Officer

Matt Lofgran (35) 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.

Stephen Vaughan Oakes, Non-Executive Director

Stephen Oakes (54) has over 30 years' experience in financial markets and is a Fellow of the Securities Institute. He began his career with stockbrockers Vickers da Costa Ltd, becoming a Member of the Stock Exchange in 1984. In 1985 he joined the then James Capel & Co (now HSBC Investment Bank plc) as a portfolio manager. Increasing management responsibility culminated in the position of Chief Executive Officer, HSBC Investment Management, firstly in respect of the international business and subsequently as acting CEO of the combined UK and international operations. He left HSBC in December 2002. He subsequently worked with Alfred Henry Corporate Finance, was chief executive of Falcon Securities (UK) Limited, and is currently an executive director of Alltrue Investments plc.

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 2009, 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 Section 496 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 2009 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 and, as regards to the Group financial statements, Article 4 of the IAS regulation.

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

28 May 2010

Consolidated income statement

for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Revenue		33	88
Cost of sales		(247)	(203)
GROSS LOSS		(214)	(115)
Administrative expenses	5	(445)	(1,228)
OPERATING LOSS	5	**(659)**	**(1,343)**
Impairment of goodwill	9	(3,268)	(943)
Loan notes waived	16	25	1,262
Other income	21	61	–
Finance costs	4	–	31
Finance income	4	–	1
LOSS BEFORE TAX		**(3,841)**	**(992)**
Tax (expense) recovery	6	–	7
LOSS FOR THE YEAR		**(3,841)**	**(985)**
Attributable to:			
Owners of the Company		**(3,841)**	**(985)**
Earnings per share expressed in pence per share:			
Basic (pence)	8	(0.46)	(0.24)
Diluted (pence)	8	(0.41)	(0.22)

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	2009 £000	2008 £000
Loss for the year	(3,841)	(958)
Other comprehensive income:		
Currency translation differences	–	–
Total comprehensive income for the year	(3,841)	(958)
Total comprehensive income attributable to:		
Owners of the Company	(3,841)	(958)

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Share capital £000	Share premium £000	Translation reserves £000	Retained losses £000	Total £000
As at 1 January 2008	**346**	**3,506**	**–**	**(492)**	**3,360**
Shares issued	78	421	–	–	499
Translation reserves	–	–	12	–	12
Loss after tax for the year	–	–	–	(985)	(985)
As at 31 December 2008	**424**	**3,927**	**12**	**(1,477)**	**2,886**
Shares issued	1,126	3,162	–	–	4,288
Shares issued 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**

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 2009

	Share capital £000	Share premium £000	Retained losses £000	Total £000
As at 1 January 2008	**346**	**3,506**	**(492)**	**3,360**
Shares issued	78	421	–	499
Loss after tax for the year	–	–	(984)	(984)
As at 31 December 2008	**424**	**3,927**	**(1,476)**	**2,875**
Shares issued	1,126	3,162	–	4,288
Shares issued 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**

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 on the London Stock Exchange's AIM market.

Consolidated statement of financial position

31 December 2009

	Notes	2009 £000	2008 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	9	–	3,268
Other Intangibles	10	1,806	153
Property, plant and equipment			
– oil and gas assets	11	–	47
– others	11	4	–
		1,810	3,468
CURRENT ASSETS			
Trade and other receivables	13	30	255
Cash and cash equivalents	14	1,895	11
		1,925	266
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	292	170
Financial liabilities – borrowings	16	–	257
		292	427
NET CURRENT ASSETS		**1,633**	**(161)**
NON-CURRENT LIABILITIES			
Financial liabilities – borrowings	16	357	421
NET ASSETS		3,086	2,886
EQUITY AND RESERVES			
Called up share capital	17	1,550	424
Share premium	18	6,842	3,927
Translation reserves	18	12	12
Retained losses	18	(5,318)	(1,477)
		3,086	2,886

The financial statements were approved and authorised for issue by the Board of Directors on 28 May 2010 and were signed on its behalf by:

M B Lofgran
Director

28 May 2010

Company registered number: 05338258

Company statement of financial position

31 December 2009

	Notes	2009 £000	2008 £000
ASSETS			
NON-CURRENT ASSETS			
Fixed asset investments	12	1,551	3,275
		1,551	3,275
CURRENT ASSETS			
Trade and other receivables	13	9	11
Cash and cash equivalents	14	1,891	11
		1,900	22
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	58	165
Financial liabilities – borrowings	16	–	257
		58	422
NET CURRENT ASSETS		1,842	(400)
NET ASSETS		3,393	2,875
EQUITY AND RESERVES			
Called up share capital	17	1,550	424
Share premium	18	6,842	3,927
Retained losses	18	(4,999)	(1,476)
		3,393	2,875

The financial statements were approved and authorised for issue by the Board of Directors on 28 May 2010 and were signed on its behalf by:

M B Lofgran
Director

28 May 2010

Company registered number: 05338258

Consolidated statement of cash flows

for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Cash flows from operating activities			
Cash (consumed) by operations	1	(485)	(519)
Net cash (consumed) by operating activities		(485)	(519)
Cash flows from investing activities			
Purchase of intangibles – new oil properties		(1,551)	–
Purchase of plant and equipment		(5)	(123)
Interest received		–	1
Net cash from investing activities		(1,556)	(122)
Cash flows from financing activities			
Issue of new shares		3,925	499
Net cash from financing activities		3,925	499
Increase/(decrease) in cash and cash equivalents		1,884	(142)
Cash and cash equivalents at beginning of year	14	11	153
Cash and cash equivalents at end of year	14	**1,895**	**11**
Represented by:			
Cash at bank		1,895	11

Notes to the consolidated statement of cash flows

for the year ended 31 December 2009

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

	2009 £000	2008 £000
Loss before tax for the year	(3,841)	(992)
Depreciation of property, plant and equipment	48	152
Amortisation of intangibles	153	357
Foreign exchange loss/(gains) non-cash items	3	471
Loan notes waived	(25)	(1,262)
Impairment of goodwill	3,268	943
Loan from participating interest written off	168	–
Expenses settled in shares	83	–
Contribution from director	(61)	–
Operating cash flows before movements in working capital	(204)	(331)
(Increase)/decrease in receivables	57	(62)
(Decrease) in payables	(388)	(126)
Cash (consumed) by operations	(485)	(519)

2. MAJOR NON-CASH TRANSACTIONS

On 30 June 2009, the Company reached an 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) was 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.

On 30 June 2009, the directors and management of the Company agreed to convert £125,682 of outstanding directors' and management fees and travel expenses into new ordinary shares in the Company at an effective issue price of 0.2p per ordinary share. Consequentially, the Company issued a further 62,841,000 new ordinary shares in satisfaction of this outstanding debt.

Company statement of cash flows

for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Cash (consumed) by operations	1	(474)	(563)
Net cash from operating activities		(474)	(563)
Cash flows from investing activities			
Interest received		–	1
Net cash from investing activities		–	1
Cash flows from financing activities			
Intercompany loan (advances)/receipts		(1,571)	17
Issue of new shares		3,925	499
Net cash from financing activities		2,353	516
Increase/(decrease) in cash and cash equivalents		1,880	(46)
Cash and cash equivalents at beginning of year	14	11	57
Cash and cash equivalents at end of year	14	1,891	11
Represented by:			
Cash at bank		1,891	11

Notes to the company statement of cash flow

for the year ended 31 December 2009

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

	2009 £000	2008 £000
Loss before tax for the year	(3,522)	(984)
Foreign exchange loss non-cash items	–	21
Impairment of cost of investments	3,296	1,423
Loan notes waived	–	(943)
Expenses settled in shares	83	–
Operating cash flows before movements in working capital	(143)	(483)
(Increase)/decrease in receivables	(2)	43
(Decrease) in payables	(329)	(123)
Cash consumed by operations	(474)	(563)

2. MAJOR NON-CASH TRANSACTIONS

On 30 June 2009, the Company reached an 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) was 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.

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Notes to the financial statements

for the year ended 31 December 2009

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 12 months from the date of approval of this report.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review and Directors' Report. In addition, note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

The Group's forecasts and projections, taking account of reasonably possible changes in activities, show that the Group should be able to operate within the funds currently held.

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.

Were the Group to be unable to continue as a going concern, adjustments would have to be made to the balance sheet of the Group to reduce balance sheet values of assets to their recoverable amounts, to provide for future liabilities that might arise and to reclassify non-current assets and long-term liabilities as current assets and liabilities which may cast significant doubt about the Group's ability to continue as a going concern

Basis of preparation

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income).

  The new titles for the financial statements (for example, 'statement of financial position' instead of balance sheet) will be used in the accounting standards but are not mandatory for use in financial statements.

  The Group has elected to present two statements: an income statement and a statement of comprehensive income and also to adopt the new title of 'statement of financial position' replacing balance sheet.

- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

  Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the executive committee that makes strategic decisions.

  The operating segments have changed in 2009 to reflect the Group's reportable segments under IFRS 8, which are the geographical locations of the oil properties.

  Information regarding the Group's reportable segments is presented in Note 2. Amounts reported for the prior year have been restated to conform to the requirements of IFRS 8.

  Goodwill is allocated by management to groups of cash-generating units on a segment level.

  The change in reportable segments has not resulted in any additional goodwill impairment. There has been no further impact on the measurement of the Group's assets and liabilities. Comparatives for 2008 have not been restated.

- IFRS 2 (amendment), 'Share-based payment' (effective from 1 January 2009). It deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group applied IFRS 2 (amendment) from 1 January 2009.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

- 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. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group.

  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. The Group will apply IFRS 3 (revised) to all business combinations from 1 January 2010.

- 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 Group 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 Group 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 Group's financial statements.

- FRIC 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 Group, 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 Group, as it has not received any assets from customers.

Notes to the financial statements

for the year ended 31 December 2009

1. ACCOUNTING POLICIES continued

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Group:

- IAS 23 (amendment), 'Borrowing costs'.
- IAS 32 (amendment), 'Financial instruments: Presentation'.
- IFRIC 13, 'Customer loyalty programmes'.
- IFRIC 15, 'Agreements for the construction of real estate'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.
- IFRS 7 (disclosure amendment); 'Financial instruments: fair value measurement and liquidity risk'.

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.

1. ACCOUNTING POLICIES continued

Functional currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

iii) Group companies

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

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

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

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

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

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

Taxation

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

Deferred tax

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

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

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 2009. 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.

1. ACCOUNTING POLICIES continued

Fair values

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

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

Share-based compensation

The fair value of the employee and 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 goodwill

The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Actual outcomes could vary. At the year end, the directors are of the opinion that there was an indication of impairment of the value of goodwill due to the unsuccessful exploration of the wells in Ukraine. The impairment has been provided on the basis of the value in use for the Ukraine operations.

1. ACCOUNTING POLICIES continued

b) 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.

(c) 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.

(d) 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.

(e) 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 are therefore 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 include 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 2009 £	Ukraine 2009 £	Head office 2009 £	Total 2009 £
Segment results – 2009				
Revenue				
Total	–	33	20	53
Inter company	–	–	(20)	(20)
Revenue	–	33	–	33
Operating loss before depreciation, amortisation share-based payment charges and restructuring costs:	–	(248)	(210)	(458)
Depreciation of tangibles	–	(48)	–	(48)
Amortisation of intangibles	–	(153)	–	(153)
Operating loss	–	(449)	(210)	(659)
Impairment of goodwill	–	–	(3,268)	(3,268)
Loan notes waived	–	–	25	25
Other income	61	–	–	61
Net finance expense				–
Loss before taxation				(3,841)
Segment assets				
Property, plant and equipment	–	4	–	4
Intangible assets	1,806	–	–	1,806
Other assets	–	25	1,900	1,925
	1,806	29	1,900	3,735

The 2008 segment reporting information relates solely to exploration in Ukraine.

3. EMPLOYEES AND DIRECTORS

	2009 £000	2008 £000
Wages and salaries – staff	16	33
Directors' fees	91	153
Social security costs	7	13
	114	199

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

	Number	Number
Directors	4	5
Operations	1	4
	5	9

	£000	£000
Directors' fees	91	153

4. NET FINANCE COSTS (RECOVERY)

	2009 £000	2008 £000
Finance income:		
Deposit account interest	–	(1)
Finance costs:		
Loan interest waived	–	(31)
Net finance costs/(recovery)	–	(32)

5. OPERATING LOSS FOR THE YEAR

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

	2009 £000	2008 £000
Auditors' remuneration (Company £14,000 – 2008: £12,000)	14	24
Depreciation of property, plant and equipment	48	152
Amortisation of intangibles	153	357
Foreign exchange differences	3	472

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

	2009 £000	2008 £000
Employment costs	23	46
Directors fees	91	153
Consultancy fees	29	18
Travelling and entertaining	12	29
Legal and professional fees	75	55
Establishment costs	4	3
Foreign exchange differences	3	472
Amount due from participating interest written off	168	–
Other expenses	40	452
	445	1,228

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6. INCOME TAX EXPENSE

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

	2009 £000	2008 £000
Current tax:		
Corporation tax	–	–
Overseas corporation tax/(recovery)	–	(7)
Total	–	(7)

	2009 £000	2008 £000
Loss before tax	(3,841)	(992)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28% (2008 – 28%)	(1,075)	(278)
Effects of:		
Non-deductible expenses	–	–
Other tax adjustments	1,075	278
Foreign tax	–	(7)
	1,075	271
Current tax charge	–	(7)

At 31 December 2009 the Group had excess management expenses to carry forward of £1,124,500 (2008 – £896,800) and trading losses of £nil (2008 – £666,000). The deferred tax asset on these tax losses of £315,000 (2008 – £186,000) 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 £3,523,000 (2008 – £984,000).

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 2008 Convertible Loans.

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

	2009	2008
EPS – loss		
Loss attributable to ordinary shareholders (£000)	(3,841)	(985)
Weighted average number of shares	827,205,057	401,890,097
Weighted average number of shares on diluted basis	943,415,767	433,204,314
Basic EPS – loss (pence)	**(0.46)**	**(0.24)**
Diluted EPS – loss (pence)	**(0.41)**	**(0.22)**

9. GOODWILL

Group	**£000**
COST	
At 1 January 2008 and 31 December 2008	4,211
Additions	–
At 31 December 2009	4,211
PROVISION	
At 1 January 2008	–
Charge for the year	943
At 31 December 2008	943
Charge for the year	3,268
At 31 December 2009	4,211
CARRYING VALUE	
At 31 December 2009	–
At 31 December 2008	3,268

9. GOODWILL continued

Group

Goodwill arose on the acquisition of Nostra Terra (Overseas) Limited in 2007.

The Group assesses at each reporting date whether there is an indication that the goodwill 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 was an indication of impairment of the value of goodwill due to the unsuccessful exploration of the wells in Ukraine. The impairment has been provided on the basis of the value in use for the Ukraine operations.

Below are the changes to the hydrocarbons reserve from Competent Person's Report prepared by Trimble Engineering Associates Limited, dated 2 April 2007 compared to 31 December 2009:

Oktyabrskoe Field	**December 2008**	**December 2009**	**Difference**
Oil	**Group's interest net AR Mbbl**	**Group's interest net AR Mbbl**	**Group's interest net AR Mbbl**
Oktyabrskoe #24	–	–	–
Oktyabrskoe #10	–	–	–
Oktyabrskoe #1	34	34	–
Oktyabrskoe #50	–	–	–
	34	34	–

Based on the exploration performed by the Group as at 31 December 2009, only Oktyabrskoe #1 field has expectation to produce oil. The other oil fields above have not been or are unlikely to be successful. Hence, the directors have provided for an impairment of the goodwill.

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.

10. OTHER INTANGIBLES

Group

COST	**Licence**	**Exploration and evaluation assets**	**Total**
	£000	**£000**	**£000**
At 1 January 2008 and 31 December 2008	–	510	510
Additions	621	1,185	1,806
At 31 December 2009	621	1,695	2,316
PROVISION			
At 1 January 2008	–	–	–
Charge for the year	–	(357)	(357)
At 31 December 2008	–	(357)	(357)
Charge for the year	–	(153)	(153)
At 31 December 2009	–	(510)	(510)
CARRYING VALUE			
At 31 December 2009	621	1,185	1,806
At 31 December 2008	–	153	153

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.

Under the agreements between the Company and HPI, in the event that either party elects not to participate in the drilling, deepening, reworking or completion attempt on an additional well, such party will be deemed to have released and relinquished to the other participating party or parties all its right, title and interest in and to that well, and the participating party shall own the relinquished interest free and clear of all obligations to the non-participating party. Following the Boxberger Field transaction noted below, the Company has secured an extension on all development funding commitments to focus initial efforts on the Boxberger Field – with the intention of delivering revenues sooner.

On 21 August 2009, the Company acquired a 50 per cent working interest in 10 production wells and one salt water disposal well (together the "Boxberger Wells") located in the Boxberger Field, Russell County, Kansas, USA (the "Boxberger Field"). The consideration was US$230,000, of which US$50,000 has been paid in cash. The remaining US$180,000 of the acquisition cost is to be paid after the initial development costs have been completed or within 12 months of the execution of the definitive agreement ("Execution") whichever is earlier.

The Company and HPI have agreed that initial production shall place at least two wells into production. The costs of production are to be agreed between the Company and HPI, however the Company is committed to paying US$350,000 towards such costs, which shall be paid within two weeks of Execution. The remainder of the development costs will be paid over the life of the development process. The Company has also agreed to assign its proceeds from production from the Boxberger Wells to pay for its obligation to pay for the development costs of the Boxberger Wells until all 11 wells have been developed.

10. OTHER INTANGIBLES continued

HPI and the Company shall bear the revenue and operating costs for the wells on the basis of 75% to the Company and 25% to HPI until such time as the Company has received revenue from the production revenue of the Boxberger Wells equal to 100% of its initial development costs. Upon the Company receiving its initial development costs from the production revenue, the revenue and operating costs shall be divided equally between the Company and HPI.

In the event either party elects not to participate in the drilling, deepening, reworking, or completion attempt on an additional well, such party will be deemed to have released and relinquished to the other participating party or parties all its right, title and interest in and to that well; and the participating party shall own the relinquished interest free and clear of all obligations under this Agreement to the non-participating party.

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 2009 – (£)	103,366	199,680	78,271
Amount unpaid at 31 December 2009 – (£)	35,876	–	167,489

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 was an indication of impairment of the value of intangibles relating to Ukrainian assets due to the unsuccessful exploration of the wells in Ukraine. Full impairment has been provided for the Ukraine operations, resulting to £nil carrying value as at 31 December 2009.

Exploration and evaluation assets are assessed for impairment when circumstances suggest that the carrying value may exceed its recoverable value. The intangible asset include the purchase of 25% interest in the Oktyabrskoe Field Licence for US$1,012,500 from Anglo Crimean Oil Company, the vendor of Nostra Terra (Overseas) Limited. The impairment in 2008 was as a result of the unsuccessful exploration on the Oktyabrskoe #10, Oktyabrskoe #24 and Oktyabrskoe #50 oil fields, while the impairment in 2009 was as a result of the unsuccessful exploration on the Oktyabrskoe #1 field.

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	**Boxberger**	**Bloom**	**Hoffman**
Interest	**50%**	**50%**	**25%**
Gross:			
Oil – bbl	1,659,191	2,260,800	834,000
Sales gas – MMcf	805	1,096	405
Net:			
Oil – bbl	676,762	1,019,290	162,630
Sales gas – MMcf	328	494	79
Expected net value	$35.8m	$45.9m	$6.2m
NPV at 10%	$18.5m	$23.8m	$3.3m
Date of report	20/08/09	15/10/09	05/12/09

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

The total assets in the US mid-continent were £1.8million as at 31 December 2009. There were no liabilities, revenue or expenses at 31 December 2009.

Group

Oktyabrskoe field licence

On 18 February 2010, the Group assigned its interest to CNI. See Note 9 for details.

An agreement between the State Geological Enterprise Krymgeologia and the Nostra Terra (Overseas) Limited representation (the Ukranian permanent representation office of the NTOL) dated 27 January 2001, as amended pursuant to which the parties agreed jointly to explore and exploit the hydrocarbon fields included in the Tatyanovskoe Licence, Oktyabrskoe Licence and Kovylnenskaya Licence (together the "Licences") including drilling of new wells as well as completion of wells, along with production, transportation and sale by both parties. The joint activity arrangement is managed by a management committee, which approves the work programme and budgets. Fulfilment of the programme is to be subcontracted to Krymgeologia and the financing provided by the representation.

The parties have the right to obtain their share of the production either in natural or in monetary form. Earnings derived from the hydrocarbons extracted under the Licence(s), after payment of taxes and all other fees, are to be used sixty per cent to recover the capital expenses of the Representative and Krymgeologia in proportion to their investment; and the remaining forty per cent to be distributed before recovery of capital expenses as seventy per cent. to the Representative and thirty per cent to Krymgeologia, and after recovery sixty per cent to the Representative and forty per cent to Krymgeologia.

The JAA is for the term of 25 years from the date of execution on 27 January 2001.

The Group has a 60% interest in a Joint Activity Agreement ("JAA") dated 27 January 2001 to explore for and pilot production to develop the hydrocarbons of the Oktyabrskoe Licence, Kovylnenskaya Licence and Tatyanovskoe Licence. The following amounts represent the Group's 60% share of the assets and liabilities, and sales and results of the JAA. They are included in the balance sheet and income statement.

	2009 £000	2008 £000
Assets		
Non-current assets	–	47
Current assets	18	128
	18	175
Liabilities		
Current liabilities	(280)	(1)
Net assets	(262)	174
Income	32	88
Expenses	(96)	(260)
Loss after tax	(64)	(172)

There are no commitments, contingent liabilities relating to the Group's interest in the JAA.

11. PROPERTY, PLANT AND EQUIPMENT

Group

COST	Plant & equipment – oil and gas assets £000	Plant & equipment – other assets £000	Total £000
At 1 January 2008	148	–	148
Additions	123	–	123
At 31 December 2008	271	–	271
Additions	–	5	5
At 31 December 2009	271	5	276
PROVISION			
At 1 January 2008	72	–	72
Charge for the year	152	–	152
At 31 December 2008	224	–	224
Charge for the year	47	1	48
At 31 December 2009	271	1	272
CARRYING VALUE			
At 31 December 2009	–	4	4
At 31 December 2008	47	–	47

12. FIXED ASSET INVESTMENTS

Company

COST	Investment in subsidiary £000	Loan to subsidiary £000	Total £000
At 1 January 2008	4,409	430	4,839
Repayment	–	(17)	(17)
At 31 December 2008	4,409	413	4,822
Additions	–	1,571	1,571
At 31 December 2009	4,409	1,984	6,393
PROVISION			
At 1 January 2008	122	–	72
Charge for the year	1,425	–	1,425
At 31 December 2008	1,547	–	1,547
Charge for the year	2,862	433	3,295
At 31 December 2009	4,409	433	4,842
CARRYING VALUE			
At 31 December 2009	–	1,551	1,551
At 31 December 2008	2,862	413	3,275

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
Nosta Terra (Overseas) Limited	100%	Cyprus	Oil and gas exploration in Ukraine
New Horizon Energy 1 LLC	100%	USA	Oil and gas exploration in USA

On 24 August 2009, 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 2009 are as follows:

	2009 £000	2008 £000
NTOL		
Aggregate capital and reserves	(926)	(603)
Loss for the year	(323)	(481)
NHE		
Aggregate capital and reserves	–	–
Loss for the year	–	–

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13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	2009	2008
	£000	£000	£000	£000
Current:				
Other receivables	2	207	–	–
Other taxes receivables	28	48	9	11
	30	255	9	11

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

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	2009	2008
	£000	£000	£000	£000
Bank current accounts	1,895	11	1,891	11

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2009	2008	2009	2008
	£000	£000	£000	£000
Current:				
Trade payables	–	95	–	95
Accruals and deferred income	88	75	58	70
Other payables	204	–	–	–
	292	170	58	165

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	
	2009	2008	2009	2008
	£000	£000	£000	£000
Repayable within one year on demand:				
Convertible loan notes	–	257	–	257
	–	257	–	257
Repayable between one and five years:				
Convertible loan notes	–	–	–	–
Loan notes	357	421	–	–
	–	421	–	–
	357	678	–	257

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 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 2008, 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 2008 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 2008. The stock was to be repaid on or before 31 December 2008. 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 2008, 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 2008.

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.

16. FINANCIAL LIABILITIES – BORROWINGS continued

Loan notes issued by Nostra Terra (Overseas) Limited

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

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

On 24 December 2008, 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 2008, 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 2009, 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:	**2009 £000**	**2008 £000**
2,500 million (2008 -1,500 million)	Ordinary	0.1p	2,500	1,500

Allotted, called up and fully paid:

Number:	Class:	Nominal value:	**2009 £000**	**2008 £000**
1,549,600,583/424,016,230	Ordinary	0.1p	1,550	424

On 24 July 2009, the Company increased its authorised share capital to £2.5 million by the creation of 1,000 million ordinary shares of 0.1p each.

The share issues in the year are noted below.

Date	Number of ordinary shares of 0.1p	Issue price pence	Purpose
30 June 2009	390,000,000	0.1	Placing
30 June 2009	110,910,020	0.2	Loan note settlement
30 June 2009	62,841,000	0.2	Directors and management fees settlement
15 August 2009	233,333,333	0.15	Placing
3 September 2009	10,000,000	0.15	Creditors settlement
3 December 2009	318,500,000	1.0	Placing

18. RESERVES

Group	Translation reserve £000	Retained losses £000	Share premium £000	Total £000
At 1 January 2008	–	(492)	3,506	3,014
Shares issued in the year	–	–	421	421
Translation reserve	12	–	–	12
Loss for the year	–	(985)	–	(985)
At 31 December 2008	12	(1,477)	3,927	2,462
Shares issued in the year	–	–	3,162	3,162
Shares issued costs	–	–	(247)	(247)
Loss for the year	–	(3,841)	–	(3,841)
At 31 December 2009	12	(5,318)	6,842	1,536

Company	Retained losses £000	Share premium £000	Total £000
At 1 January 2008	(492)	3,506	3,014
Shares issued in the year	–	421	421
Loss for the year	(984)	–	(984)
At 31 December 2008	(1,476)	3,927	2,451
Shares issued in the year	–	3,162	3,162
Shares issued costs	–	(274)	(274)
Loss for the year	(3,523)	–	(3,523)
At 31 December 2009	(4,999)	6,842	1,843

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 Ukraine and the US mid-continent, which include but are not limited to:

- The political situation in Ukraine could adversely affect the Group and its business could be harmed if governmental instability recurs.
- Economic instability in Ukraine could adversely affect the Group's business.
- Fluctuations in the global or Ukraine economies could disrupt the Group's ability to operate its business in Ukraine and could discourage foreign and local investment and spending, which could adversely affect its production.
- Ukraine's physical infrastructure is in poor condition, which could disrupt normal business activity.

Legal and environmental risk in Ukraine

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

- The Ukraine government can mandate deliveries of oil and refined products at less than market prices, adversely affecting the Group's revenue and relationships with other customers.
- Unlawful, selective or arbitrary government action may have an adverse effect on the Group's business.
- Ukraine's developing legal system creates a number of uncertainties for the Group's business.
- 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.
- Ukraine's unpredictable federal and local tax system gives rise to significant uncertainties and risks that complicate the Group's tax planning and business decisions.
- Ukraine's legislation may not adequately protect against expropriation and nationalisation.

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.

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**	
	2009	**2008**	**2009**	**2008**
	£'000	**£'000**	**£'000**	**£'000**
Ukraine Hryvnia (UAH)	24	243	30	5
United States Dollars (US$)	–	–	561	422
	24	243	591	427

The foreign exchange rate affecting the Group is as follows:

Group	**Income statement**		**Balance sheet**	
	2009	**2008**	**2009**	**2008**
	£	**£**	**£**	**£**
Ukraine Hryvnia (UAH)	12.75	9.82	12.93	11.48
United States Dollars (US$)	0.64	0.54	0.63	0.69

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	
	2009	**2008**	**2007**
Per barrel – US$	61.95	91.48	64.20
Per barrel – £	39.65	49.4	34.03

Liquidity risk

The Group expects to fund its exploration and development programme, as well as its administrative and operating expenses throughout 2010, principally using a combination of the proceeds from the fundraising on AIM, existing working capital, and expected proceeds from the sale of future crude oil production. The Company currently has a bank balance of approximately £1.9 million from the issue of new shares in December 2009.

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:

	2009 £	2008 £
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 £1,000 (2008 – £101,000) and charged management fees of £29,300 (2008 – £34,200) to JAA (see Note 10). As at 31 December 2009, the outstanding loan balance due from JAA was £208,000 (2008 – £207,000).

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 2009, 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 2009, a provision of £168,475 (2008 – £nil) was made against the outstanding loan amount due from JAA. The net balance at the year end was £nil (2008 – £206,752).

Company

During the year, the Company advanced a loan of £20,000 (2008 – repaid £17,000) to NTOL. At the year end, the Company made a provision of £433,000 (2008 – £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 (2008 – £413,000).

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:

	2009		2008	
	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	25,100,000	2.0	14,060,000	1.7
Granted – 27 August 2009	4,666,667	0.15	–	–
Granted – 30 June 2009	280,342,506	0.1	–	–
Granted – 1 February 2008	–	–	33,600,000	2.0
Exercised – 18 February 2008	–	–	(2,000,000)	0.1
Expired	–	–	(560,000)	1.5
Expired	–	–	(20,000,000)	2.0
Cancelled	(13,600,000)	2.0	–	–
Balance carried forward	296,509,173	0.17	25,100,000	2.0

The options and warrants outstanding at 31 December 2009 are as follows:

	Issue date	End date	Exercise price	No of warrants
'A' Warrants				
Falcon Securities	02/02/2005	23/02/2012	2p	2,500,000
'C' Warrants				
Religare Capital Markets (formerly Blomfield Corporate Finance)	25/06/2007	30/04/2012	2p	4,000,000
Falcon Securities Limited	25/06/2007	30/04/2012	2p	5,000,000
				9,000,000
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
				285,009,173
				296,509,173

22. SHARE-BASED PAYMENTS continued

The options and warrants outstanding at 31 December 2008 are as follows:

	Issue date	End date	Exercise price	No of warrants
'A' Warrants				
Falcon Securities	02/02/2005	23/02/2012	2p	2,500,000
'C' Warrants				
Religare Capital Markets (formerly Blomfield Corporate Finance)	25/06/2007	30/04/2012	2p	4,000,000
Falcon Securities Limited	25/06/2007	30/04/2012	2p	5,000,000
				9,000,000
Options				
A M Blennerhassett	01/02/2008	31/12/2015	2p	2,000,000
B W Courtney	01/02/2008	31/12/2015	2p	2,000,000
G G MacNeil	01/02/2008	31/12/2015	2p	2,000,000
N D Smith	01/02/2008	31/12/2015	2p	2,000,000
S V Oakes	01/02/2008	31/12/2015	2p	2,000,000
Y Zvenigordski	01/02/2008	31/12/2015	2p	3,600,000
				13,600,000
				25,100,000

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

	30 June 2009	27 August 2009	2 February 2008
Share price at grant date	0.2p	0.3p	0.16p
Exercise price	0.1p	0.15p	2.0p
Option life in years	3 years	2 years	7 years
Risk free rate	3.5%	3.5%	3.5%
Expected volatility	10%	10%	10%
Expected dividend yield	0%	0%	0%
Fair value of option	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 18 February 2010, the Company's 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.

On 22 February 2010, the Company's Remuneration Committee determined that the conditions attaching to the warrants granted to Mr Lofgran had been satisfied in respect of 62,500,000 warrants. These are accordingly now capable of exercise at a price of 0.1p per ordinary share. Warrants to subscribe for a further 217,842,506 ordinary shares at a price of 0.1p per share have not yet vested. Warrants once vested are capable of exercise at any time, subject to any restrictions contained in the AIM Rules for Companies and the Company's Code on Dealings in Securities (amongst others), until 30 June 2012, subject to extension if the Company is then in a close period as defined in the AIM Rules.

On 31 March 2010, the Company acquired a 7% working interest (WI) before payout and 5% WI after payout in the Liberty #1 exploratory well in Juab County, Utah, for an initial consideration of US$125,000, with an estimated additional contribution of US$87,500 should the Liberty #1 be deemed capable of producing commercial quantities of hydrocarbons. The Company has the right to participate in the wider prospect area.