NOSTRA TERRA OIL AND GAS COMPANY PLC

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

Nostra Terra Oil and Gas Company plc

Contents of the Financial Statements
for the year ended 31 December 2008

Nostra Terra Oil and Gas Company plc

Company Information
for the year ended 31 December 2008

DIRECTORS:	A M Blennerhassett B W Courtney G G MacNeil S V Oakes N D Smith (resigned 10 January 2009)
SECRETARY:	International Registrars Limited
REGISTERED OFFICE:	Finsgate 5 - 7 Cranwood Street London EC1V 9EE
NOMINATED ADVISER:	Blomfield Corporate Finance Limited 1- 3 College Hill London EC4R 2RA
BROKER:	Falcon Securities UK Limited 154 Bishopsgate London EC2M 4LN
SOLICITORS:	Ronaldsons LLP 55 Gower Street London WC1E 6HQ
BANKERS :	National Westminster Bank Plc P O Box 712 94 Moorgate London EC2M 6XT
REGISTRARS:	Share Registrars Ltd Craven House West Street Farnham Surrey GU9 7EN
REGISTERED NUMBER:	05338258 (England and Wales)
AUDITORS:	Jeffreys Henry LLP Finsgate 5-7 Cranwood Street London EC1V 9EE
WEBSITE:	www.ntog.co.uk

Nostra Terra Oil and Gas Company plc

Chairman's Statement
for the year ended 31 December 2008

It is my duty to present our Annual Report and accounts for 2008. It was a challenging and disappointing year for the Company. Our activities over the past year have been largely directed at developing a new strategy and direction for the Company. We have examined several potential alliances and evaluated a number of alternatives to revive the fortunes of the Company. All of our activities have been severely impacted by the worldwide economic crisis.

Simply put, our mission is to attract investment and partners who can reinvigorate the Company so that shareholders may benefit from an improving oil market.

It has been approximately nine months since our announcement that we decided to cease work on Oktyabrskoe well #24. Immediately following this decision on well #24 the board eliminated all cash compensation to all directors and senior management. Operational costs were reduced to the bare minimum. Spending was restricted to only those amounts essential to maintain our operation in the Ukraine and keep our contractual commitments.

Additionally, the Company was successful in restructuring our debt obligations with Promissory Note holders. Debt was transferred to our subsidiary NTOL, reduced by 75% and extended until December 2012.

We expect 2009 to be a year when the Company needs to find additional impetus and investment for it to move forward.

Sir Adrian Blennerhassett
Chairman

30 June 2009

Nostra Terra Oil and Gas Company plc

Chief Executive Officer's Statement
for the year ended 31 December 2008

During the fiscal year 2008 the Company successfully negotiated the return of Oktyabroskoe #1 and produced 3,254 barrels of oil from Oktyabrskoe well #1 and 192 barrels of oil from Oktyabrskoe well #24.

The major operational event for the Company was the opening of well #24. Initial results were very encouraging with well #24 producing 61 barrels of oil during the month of May 2008. This initial level of production was free flowing and the well was open for only a few days in May.

Unfortunately as reservoir pressure dropped we encountered water from both above and below the target zone. We attempted to address the water problem by installing packers above the target zone to address water inflows from above and re casing the bottom portion of the well to address possible water inflows from the bottom.

Unfortunately, the application of both potential solutions did not result in a reduction of the water to oil ratio. We decided to abandon plans to install a pump on well #24 and we also abandoned plans to complete well #10 since that well has similar geology to #24 and was therefore considered to have little chance of success following the results produced by #24.

The balance of the year was devoted to minimizing operational costs and attempting to find additional capital and partners to shift development to the West Oktyabrskoe field.

While the Company conducted a vigorous search it was unable to attract any investment or potential partners. This was due in large measure to the drop in oil prices and the worldwide economic crisis. We intend to continue our efforts to attract additional investment and hope that we meet with success in 2009.

Brian Courtney
CEO

30 June 2009

Nostra Terra Oil and Gas Company plc
Report of the Directors
for the year ended 31 December 2008

The directors present their report with the financial statements of the Company and the Group for the twelve month period ended 31 December 2008.

PRINCIPAL ACTIVITY
The principal activity of the Group is the exploitation of hydrocarbon resources in the Crimea region of Ukraine.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS
The results for the period 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 CEO's statement.

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.

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 also political and environmental risks in the Ukraine.

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

	February 2007 Group's interest net AR	**December 2008 Group's interest net AR**
Oil – Mbbl	160	34
Sales Gas – MMcf	4,406	4,406
Condensate - Mbbl	189	189

Glossary of terms:

Mbbl – One million barrels
MMCF – One million cubic feet
Condensate – Liquid hydrocarbons produced with natural gas which are separated from it by colloing, expansion, and various other means
Reserves – the estimate 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.

RESULTS AND DIVIDENDS
The loss for the year is £985,000, which has been allocated against reserves. No dividends will be distributed for the period ended 31 December 2008.

DIRECTORS
The following directors have held office since 1 January 2008:

A M Blennerhassett
B W Courtney
G G MacNeil
S V Oakes
N D Smith (resigned 10 January 2009)

DIRECTORS (Continued)

All of the directors who are eligible offer themselves for re-election at the forthcoming Annual General Meeting with the exception of G G MacNeil.

The beneficial interests of the directors holding office on 31 December 2008 in the issued share capital of the Company were as follows:

	31.12.08		**01.01.08**	
	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	-	-	-	-
B W Courtney	37,417,445	9%	74,990,154	22%
G G MacNeil	21,348,132	5%	17,932,428	5%
S V Oakes	8,666,666	2%	8,333,333	2%
N D Smith	41,575,406	10%	79,372,343	23%

The numbers of options outstanding to the directors at 31 December 2008 are as follows:

	31.12.08 No of warrants of 0.1p each	**01.01.08 No of warrants of 0.1p each**
A M Blennerhassett	2,000,000	-
B W Courtney	2,000,000	-
G G MacNeil	2,000,000	-
S V Oakes	2,000,000	333,334
N D Smith	2,000,000	-

SUBSTANTIAL SHAREHOLDERS

As at 22 June 2009, the Company has been notified 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**
BBHISL Nominees Limited	14,552,017	3.43%
Pershing Nominees Limited	69,811,646	16.46%
Barclayshare Nominees Limited	19,321,656	4.56%
JIM Nominees Limited	69,163,561	16.31%
Lynchwood Nominees Limited	39,800,000	9.39%
TD Waterhouse Nominees (Europe) Limited	84,151,523	19.85%

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. The payables days increased by 291 days to 467 (2007:176) days in the period under review.

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 Company 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 (IFRS) 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.
- to 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 1985 and Article 4 of the IAS regulations. 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 234ZA of the Companies Act 1985) 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
The auditors, Jeffreys Henry LLP, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985 in the Annual General Meeting.

ON BEHALF OF THE BOARD:

G G MacNeil
Director

30 June 2009

Corporate Governance Report for the year ended 31 December 2008

The directors recognise the importance of sound corporate governance to commensurate with The Group's size and the interests of shareholders. As the Group grows, policies and procedures that reflect the Principles of Good Governance and Code of Best Practice as published by the Committee on Corporate Governance (commonly known as the "Combined 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 Combined Code.

The Board of Directors

The Board is comprised of three executive directors and two non-executive directors. N D smith resigned on 10 January 2009. The directors' biographies are set out on page 109 and 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, considering strategic and policy, approval of major capital investments and transactions, and responsible for significant financing matters.

The Board has established an Audit Committee and a Remuneration Committee which roles and responsibilities are discussed below.

Audit Committee

An Audit Committee has been established and currently comprises A Blennerhassett, S V Oakes and G G MacNeil. All 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 that 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 reviewing the Company's internal audit function, and where there is no internal audit function and considering annually whether there is a need for an internal audit function and making recommendation to the Board, and to review 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 Committee

The Remuneration Committee, which meets at least twice a year, consists of A Blennerhassett, SV Oakes and B W Courtney. 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.

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 the information about the Company's activities and the interim report. Shareholders are welcomed to ask any enquiries on the matter relating the business and their shareholdings. The Company encourages the shareholders to attend the Annual Meeting, 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 its 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 of 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
for the year ended 31 December 2008

Sir Adrian Blennerhassett, aged 69, Non-Executive Chairman

Sir Adrian 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 has acted as technical director at Peninsula Petroleum Ltd. He has experience of corporate finance and securities activities and more recently had eleven years experience in corporate finance including mergers and acquisitions with Anglo European Amalgamations Limited and Chesham Amalgamations and Investments Limited.

Brian Courtney, aged 67, Chief Executive Officer

Mr. Courtney has been actively investing in the oil and gas business for over thirty years, first working with Mr. Smith on the Ingoldsby 10-12 horizontal well, and most recently by serving as the Chairman and CEO of Ucoco Energy, Inc. In addition Mr. Courtney has held many senior executive positions and public company directorships including being founding president and former VP of America's Oracle Corporation Canada and director of EFT Canada Inc. Mr. Courtney served as CEO of Global Election Systems Inc., an American Stock Exchange listed company, and as chairman and CEO of Patent Enforcement and Royalties Limited, a TSX Venture Exchange listed company. Mr. Courtney has been investing in Ukraine for four years through Ucoco Energy and Ucoco Cyprus. Mr. Courtney is a graduate of the University of Manitoba (B.Comm.).

Neville Desmond Smith, aged 56, Chief Operating Officer

Mr. Smith is a geologist who has worked in the oil and gas business for over thirty years and is an honours graduate in geology from the University of British Columbia. Mr. Smith has held several senior executive positions with upstream oil and gas international companies including companies in Canada, the USA, Azerbaijan and Ukraine. He was president and CEO of Tai Energy Corporation, formerly a public Canadian oil and gas company and COO of A&B Geoscience Corporation (Arawak Energy Corp.). Mr. Smith has been working in the former Soviet Union since 1995 and in Ukraine for the last six years.

Glenn MacNeil, aged 49, Chief Financial Officer

Mr. MacNeil has been actively investing in the oil and gas business for over fifteen years and is a director of Hegco Canada, Inc. a Toronto Stock Exchange junior oil and gas company. Mr MacNeil holds a Bachelor of Business Administration degree (B.B.A.) and is also a Chartered Accountant (Canada), a Certified Management Accountant (Canada) and a Certified Public Accountant (USA). Mr MacNeil has also held a number of international senior executive positions with various publicly traded insurance companies over the past twenty years. In addition, he worked in public accounting with Deloitte and Touche. He is also a director of three FSA regulated companies and has been a director of a financial services company - Lancaster Sierra Capital Corporation, which trades on the Toronto Stock Exchange as EFT Canada.

Stephen Vaughan Oakes, aged 53, Director, Non-Executive Director

Stephen Oakes has over 30 years experience in financial markets and is a Fellow of the Securities Institute. He begun 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 is currently a director of Alltrue Investments Plc and Chief Executive Officer of Falcon Securities (UK) Ltd. He is also Chairman of Timestrip plc whose shares are traded on AIM.

Report of the Independent Auditors 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 2008, which comprise the consolidated income statement, consolidated statement of changes in equity, consolidated balance sheet, company balance sheet, consolidated cash flows, company cash flows and the related notes on pages 21 to 52. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union are set out on page eight.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and as regard group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Director’s Report includes that specific information mentioned in the Chairman’s statement and Chief Executive’s statement that is cross referred from the Review of the Business and future Developments sections of the Directors’ Report.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors’ Report, the Chairman’s Statement, Corporate Governance Statement and Chief Executive Officer’s Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

<u>Report of the Independent Auditors to the Shareholders of</u>
<u>Nostra Terra Oil and Gas Company plc</u>

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted for use in the European Union, of the state of affairs of the Company and the Group as at 31 December 2008 and of its loss and cash flows of the Group for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRS's as adopted by the European Union as applied in accordance with provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;

- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regard the group financial statements, article 4 of the IAS regulation; and

- the information given in the Report of the Directors is consistent with the financial statements.

Jeffreys Henry LLP
Chartered Accountants and Registered Auditors

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

30 June 2009

Nostra Terra Oil and Gas Company plc

Consolidated Income Statement
for the year ended 31 December 2008

	Notes	31 December 2008 £000	31 December 2007 £000
Revenue		88	30
Cost of sales		(203)	(16)
GROSS PROFIT/(LOSS)		(115)	14
Administrative expenses	5	(1,228)	(362)
OPERATING LOSS	5	**(1,343)**	**(348)**
Impairment of goodwill	9	(943)	-
Loan notes waived	16	1,262	-
Finance costs	4	31	(32)
Finance income	4	1	5
LOSS BEFORE TAX		**(992)**	**(375)**
Tax (expense) recovery	6	7	(7)
LOSS FOR THE YEAR		**(985)**	**(382)**
Attributable to:			
Equity holders of the Company		**(985)**	**(382)**
Earnings per share expressed in pence per share:			
Basic and diluted (pence)	8	(0.24)	(0.20)

The notes form part of these financial statements

Nostra Terra Oil and Gas Company plc

Statement of Changes in Equity for the year ended 31 December 2008

	Share Capital £000	Share Premium £000	Translation Reserves £000	Retained Losses £000	Total £000
As at 1 February 2007	**63**	**167**	**-**	**(110)**	**120**
Shares issued	283	3,339	-	-	3,622
Loss after tax for the period	-	-	-	(382)	(382)
As at 31 December 2007	**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**

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

Retained loss represents the cumulative losses of the Company attributable to equity shareholders.

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

Nostra Terra Oil and Gas Company plc

Consolidated Balance Sheet
31 December 2008

	Notes	2008 £000	2007 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	9	3,268	4,211
Other Intangibles	10	153	510
Property, plant and equipment	11	47	76
		3,468	4,797
CURRENT ASSETS			
Trade and other receivables	13	255	193
Cash and cash equivalents	14	11	153
		266	346
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	170	296
Tax payable		-	7
Financial liabilities - borrowings	16	257	-
		427	303
NET CURRENT ASSETS		(161)	43
NON-CURRENT LIABILTIIES			
Financial liabilities - borrowings	16	421	1,480
NET ASSETS		2,886	3,360
EQUITY AND RESERVES			
Called up share capital	17	424	346
Share premium	18	3,927	3,506
Translation reserves	18	12	-
Retained loss	18	(1,477)	(492)
		2,886	3,360

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2009 and were signed on its behalf by:

G G MacNeil
Director

30 June 2009

Nostra Terra Oil and Gas Company plc

Company Balance Sheet
31 December 2008

	Notes	2008 £000	2007 £000
ASSETS			
NON-CURRENT ASSETS			
Fixed asset investments	12	3,275	4,717
		3,275	4,717
CURRENT ASSETS			
Trade and other receivables	13	11	54
Cash and cash equivalents	14	11	57
		22	111
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	165	288
Financial liabilities – borrowings	16	257	-
		422	288
NET CURRENT ASSETS		(400)	(177)
NON-CURRENT LIABILITIES			
Financial liabilities – borrowings	16	-	1,180
NET ASSETS		2,875	3,360
EQUITY AND RESERVES			
Called up share capital	17	424	346
Share premium	18	3,927	3,506
Retained earnings	18	(1,476)	(492)
Total shareholders' equity		2,875	3,360

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2009 and were signed on its behalf by:

G G MacNeil
Director

30 June 2009

The notes form part of these financial statements

Nostra Terra Oil and Gas Company plc

Consolidated Cash Flow Statement
for the year ended 31 December 2008

	Notes	31 December 2008 £000	11 Months to 31 December 2007 £000
Cash flows from operating activities			
Cash generated/(consumed) by operations	1	(550)	123
Finance (costs) recovery		31	(32)
Net cash (consumed) from operating activities		(519)	91
Cash flows from investing activities			
Purchase of intangibles		-	(510)
Purchase of plant and equipment		(123)	(76)
Acquisition of subsidiaries		-	(203)
Interest received		1	5
Net cash from investing activities		(122)	(784)
Cash flows from financing activities			
Issue of new shares		499	695
Net cash from financing activities		499	695
Increase/(Decrease) in cash and cash equivalents		(142)	2
Cash and cash equivalents at beginning of year	14	153	151
Cash and cash equivalents at end of year	**14**	**11**	**153**
Represented by:			
Cash at bank		11	153

The notes form part of these financial statements

Nostra Terra Oil and Gas Company plc

Notes to the Group Cash Flow Statement for the year ended 31 December 2008

1 **RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS**

	31 December 2008 £000	11 Months to 31 December 2007 £000
Operating loss for the year	(1,343)	(348)
Depreciation of property, plant and equipment	152	-
Amortisation of intangibles	357	-
Foreign exchange loss non-cash items	472	-
Operating cash flows before movements in working capital	(362)	(348)
(Increase) Decrease in receivables	(62)	246
(Decrease) Increase in payables	(126)	225
Cash generated (consumed) by operations	(550)	123

Nostra Terra Oil and Gas Company plc

Company Cash Flow Statement
for the year ended 31 December 2008

	Notes	31 December 2008 £000	11 Months to 31 December 2007 £000
Cash generated from operations	1	(586)	(161)
Finance costs waived		23	-
Net cash from operating activities		(563)	(161)
Cash flows from investing activities			
Acquisition of subsidiaries		-	(203)
Interest received		1	5
Net cash from investing activities		1	(198)
Cash flows from financing activities			
Intercompany loan receipts (advanced)		17	(430)
Issue of new shares		499	695
Net cash from financing activities		516	265
(Decrease) in cash and cash equivalents		(46)	(94)
Cash and cash equivalents at beginning of year	14	57	151
Cash and cash equivalents at end of year	14	11	57
Represented by:			
Cash at bank		11	57

The notes form part of these financial statements

Nostra Terra Oil and Gas Company plc

Notes to the Company Cash Flow Statement
for the year ended 31 December 2008

1 RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	31 December 2008 £000	11 months to 31 December 2007 £000
Operating loss for the year	(1,949)	(260)
Foreign exchange loss non-cash items	20	-
Provision on cost of investments	1,423	-
Operating cash flows before movements in working capital	(506)	(260)
(Increase)/Decrease in receivables	43	(52)
(Decrease)/Increase in payables	(123)	151
Cash consumed by operations	(586)	(161)

The notes form part of these financial statements

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 page 1 of the financial statements. The principal activity of the Group is described on page 4. The Company changed to its present name on 19 July 2007 upon the successful acquisition of Nostra Terra (Overseas) Limited.

1. ACCOUNTING POLICIES

Going concern

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the on pages 2 to 7. 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 directors are in the process of raising a minimum of £200,000 of equity funding to assist the Group with its future working capital requirements. A placing agreement has been signed with the Company's brokers and placing letters are expected to be dispatched in July 2009.

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

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

1. ACCOUNTING POLICIES (continued…)

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 1985 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.

(a) Standards, amendment and interpretations effective in 2008

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- IFRIC 12, 'Service concession arrangements';
- IFRIC 13, 'Customer loyalty programmes'; and
- IFRIC 14 IAS 19, 'The limit on a defined asset, minimum funding requirements and their interaction' (effective from 1 January 2008).

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group.

- IAS 1 Revised – Presentation of Financial Statements (effective from 1 January 2009). Key changes include, the requirement to aggregate information in the financial statements on the basis of shared characteristics, the introduction of a Statement of Comprehensive Income & changes in titles of some of the financial statements.

  Preparers of financial statements will have the option of presenting income and expense and components of other comprehensive income either in a single statement or in two separate statements (a separate income statement followed by a 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 expected impact is still being assessed in detail by management as the IASB is involved in discussions to examine more fundamental questions about the presentation of information in financial statements.

- IFRS 8 – Operating Segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

- IAS 27(2008) – Consolidated and Separate Financial Statements (effective from 1 July 2009).

1. ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

- IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009).

- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard 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 company will apply IFRS 2 (Amendment) from 1 January 2009. It may have a material impact on the Group's financial statements depending on the specific circumstances of any share options granted in the future.

- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

1. ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

- IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, 'Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent. The Group will apply the IAS 19 (Amendment) from 1 January 2009.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker. Currently, for segment reporting purposes, each subsidiary designates contracts with group treasury as fair value or cash flow hedges so that the hedges are reported in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision-maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision-maker), but the company will not formally document and test this relationship. When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. The company will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the company's income statement

1. ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the company's accounts and have therefore not been analysed in detail.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and not relevant to the Group's operations . The following interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant to the Group's operations:

- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendments to IFRS 1, 'First-time adoption')(effective from 1 July 2009).
- IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).
- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009).
- IAS 19 (Amendment), 'Employees benefits' (effective from 1 January 2009).IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).
- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).
- IAS 31 (Amendment), 'Interest in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009).
- IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).
- IFRIC 15, 'Agreements for construction of real estate' (effective from 1 January 2009).
- The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance', and IAS 20, 'Financial reporting in hyperinflationary economies', IAS40, 'Investment property', and IAS 41, 'Agriculture'.
- IFRC 16, 'Hedges of a net investment in a foreign operation'.

Nostra Terra Oil and Gas Company plc

Notes to the Financial Statements (Continued)
For the year ended 31 December 2008

1. ACCOUNTING POLICIES (CONTINUED)

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

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

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.

1. ACCOUNTING POLICIES (CONTINUED)

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 assets 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 asset's 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.

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 Ukraine Hryvnia. The financial statements are presented in Pounds Sterling (£), which is the Group's presentation currency.

1. ACCOUNTING POLICIES (CONTINUED)

Functional currency translation (continued…)

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

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

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(c) all resulting exchange differences are recognised as a separate component of equity.

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

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

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

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

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

1. ACCOUNTING POLICIES (CONTINUED)

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
A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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 is 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.

1. ACCOUNTING POLICIES (CONTINUED)

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

Fair values
The carrying amounts of the financial assets and liabilities such as cash and cash equivalents, receivables and payables of the Group at the balance sheet date approximated their fair values, due to 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.

1. ACCOUNTING POLICIES (CONTINUED)

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 have 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.

1. ACCOUNTING POLICIES (CONTINUED)

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 judgements

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 judgements 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:

Critical accounting estimates and judgements

(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.

(b) Impairment of property, plant and equipment

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

(c) Recoverability of exploration and evaluation costs

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

(d) Share based payments

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

2. SEGMENTAL ANALYSIS

In the opinion of the directors, the operations of the Group comprise 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, the Ukraine.

3. EMPLOYEES AND DIRECTORS

	Year Ended 31 December 2008 £000	11 Months to 31 December 2007 £000
Wages and salaries	93	117
Social security costs	13	20
	106	137

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

	Number	Number
Directors	5	5
Operations	4	4
	9	9

	£000	£000
Directors' fees	153	117

4. NET FINANCE COSTS (RECOVERY)

	Year Ended 31 December 2008 £000	11 Months to 31 December 2007 £000
Finance income:		
Deposit account interest	(1)	(5)
Finance costs:		
Loan interest	-	32
Loan interest waived	(31)	-
Net finance costs /(recovery)	(32)	27

Nostra Terra Oil and Gas Company plc

Notes to the Financial Statements (Continued)
for the year ended 31 December 2008

5. OPERATING LOSS FOR THE YEAR

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

	Year Ended 31 December 2008 £000	11 Months to 31 December 2007 £000
Auditors' remuneration (Company £15,000 – 2007: £12,500)	24	15
Non –audit fees - Corporate finance services	-	80
Depreciation of property, plant and equipment	152	-
Amortisation of intangibles	357	-
Foreign exchange differences	472	10

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

	Year Ended 31 December 2008 £000	11 Months to 31 December 2007 £000
Employment costs	46	20
Directors fees	153	117
Consultancy fees	18	14
Travelling and entertaining	29	14
Legal and Professional Fees	55	81
Establishment costs	3	38
Foreign exchange differences	472	-
Other expenses	452	78
	1,228	362

6. INCOME TAX EXPENSE

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

	Year Ended 31 December 2008 £000	11 Months to 31 December 2007 £000
Current tax:		
Corporation tax	-	-
Overseas Corporation tax/ (recovery)	(7)	7
Total	(7)	7

6. INCOME TAX EXPENSE (Continued)

	Year Ended 31 December 2008 £000	11 Months to 31December 2007 £000
Loss before tax	(992)	(375)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28% (2007 - 30%)	(278)	(112)
Effects of:		
Non deductible expenses	-	30
Other tax adjustments	278	82
Foreign tax	(7)	7
	271	119
Current tax charge	(7)	7

At 31 December 2008 the Group had excess management expenses to carry forward of £896,500 (2007 - £369,500) and trading losses of £666,000 (2007 - £185,000). The deferred tax asset on these tax losses of £186,000 (2007 - £150,000) has not been recognised due to the uncertainty of recovery.

7. LOSS OF PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, 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 £984,000 (2007 - £260,000).

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 has 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 Convertible Loans.

8. EARNINGS PER SHARE (continued…)

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

	Year Ended 31 December 2008	11 months to 31 December 2007
Basic EPS-Loss		
Loss attributable to ordinary shareholders (£000)	(985)	(382)
Weighted average number of shares	401,890,097	191,848,170
Weighted average number of shares on diluted basis	433,204,314	146,379,299
Basic and diluted EPS- Loss (pence)	**(0.24)**	**(0.20)**

9. GOODWILL

Group

	£000
COST	
At 1 February 2007	-
Additions	4,211
At 31 December 2007	4,211
Additions	-
At 31 December 2008	4,211
PROVISION	
At 1 February 2007 and 31 December 2007	-
Charge for the year	943
At 31 December 2008	943
CARRYING VALUE	
At 31 December 2008	3,268
At 31 December 2007	4,211

9. GOODWILL (continued…)

Group

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

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 2008:

Oktyabrskoe Field	**February 2007**	**December 2008**	**Difference**
	Group's interest net AR	**Group's interest net AR**	**Group's interest net AR**
Oil	**Mbbl**	**Mbbl**	**Mbbl**
Oktyabrskoe #24	42	-	(42)
Oktyabrskoe #10	42	-	(42)
Oktyabrskoe #1	34	34	-
Oktyabrskoe #50	42	-	(42)
	160	34	(126)

Based on the exploration performed by the Group as at 31 December 2008, only Oktyabrskoe #1 field has produced oil. The other oil fields above have not or are likely to be successful. Hence, the directors have provided for an impairment of the goodwill. The directors are confident about the prospects for the West Oktyabrskoe gas fields which has an estimation of 4,406 Mcf of possible reserves with value of well in excess of the carrying value above.

10. OTHER INTANGIBLES

Group

	£000
COST	
At 1February 2007	-
Additions	510
At 31 December 2007 and 31 December 2008	510
AMORTISATION	
At 1 February 2007 and 31 December 2007	-
Amortisation for the year	(357)
At 31 December 2008	(357)
CARRYING VALUE	
At 31 December 2007	153
At 31 December 2007	510

Exploration and evaluation assets are assessed for impairment when circumstances suggest that the carrying value may exceed its recoverable value. The intangible asset above represents 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 is the result of the unsuccessful exploration on the Oktyabrskoe #10, Oktyabrskoe #24 and Oktyabrskoe #50 oil fields.

10. OTHER INTANGIBLES (continued…)

Group

Oktyabroske field Licence
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 license(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 develop the hydrocarbons of the Oktyabrskoe License, Kovylnenskaya License and Tatyanovskoe License. The following amounts represent the Group's 60% share of the assets and liabilities, and sales and results of JAA. They are included in the balance sheet and income statement.

	2008 £000	2007 £000
Assets		
Non-current assets	47	76
Current assets	128	48
	175	124
Liabilities		
Current liabilities	(1)	(44)
Net assets	174	80
Income	88	30
Expenses	(260)	(90)
Loss after tax	(172)	(60)

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

11. PROPERTY, PLANT AND EQUIPMENT

Group	**Plant and equipment – Oil and Gas Assets**
COST	**£000**
At 1 February 2007	-
Additions	76
Acquisition of subsidiary	72
At 31 December 2007	148
Additions	123
At 31 December 2008	271
DEPRECIATION	
At 1 February 2007	-
Charge for the period	-
Acquisition of subsidiary	72
At 31 December 2007	72
Charge for the period	152
At 31 December 2008	224
CARRYING VALUE	
At 31 December 2008	47
At 31 December 2007	76

12. FIXED ASSET INVESTMENTS

Company

COST	**Shares £000**	**Loans £000**	**Total £000**
At 1 February 2007	-	-	-
Additions	4,409	430	4,839
At 31 December 2007	4,409	430	4,839
Repayment	-	(17)	(17)
At 31 December 2008	4,409	413	4,822
PROVISION			
At 1 February 2007 and 31 December :	122	-	122
Charge for the year	1,425	-	1,425
At 31 December 2008	1,547	-	1,547
CARRYING VALUE			
At 31 December 2008	2,862	413	3,275
At 31 December 2007	4,287	430	4,717

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 subsidiary is as set out below:

	Country of incorporation	**Nature of business**
Nosta Terra (Overseas) Limited	Cyprus	Oil and Gas exploration

The Company acquired the whole issued share capital of Nostra Terra (Overseas) Limited on 20 June 2007 for a total consideration of £4,409,000.

The consideration was satisfied by the issue of 149,126,472 ordinary shares of 0.1p each at a fair value of 2p and the issue of promissory notes of £1,278,714. The legal and professional fees on the acquisition totaled £203,000.

The results of the subsidiary as at 31 December 2008 are as follows:

	2008 £000	**2007 £000**
Aggregate capital and reserves	(603)	94
Loss for the year	(481)	(122)

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	**2007**	**2008**	**2007**
	£000	**£000**	**£000**	**£000**
Current:				
Other receivables	207	106	-	-
Other taxes receivables	48	87	11	54
	255	193	11	54

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

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	**2007**	**2008**	**2007**
	£000	**£000**	**£000**	**£000**
Bank current accounts	11	153	11	57

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2008	**2007**	**2008**	**2007**
	£000	**£000**	**£000**	**£000**
Current:				
Trade payables	95	175	95	175
Accruals and deferred income	75	115	70	107
Other payables	-	6	-	6
	170	296	165	288

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	
	2008 £000	2007 £000	2008 £000	2007 £000
Repayable within one year on demand:				
Convertible loan notes	257	-	257	-
	257	-	257	-
Repayable between one and five years:				
Convertible loan notes	-	257	-	257
Loan notes	421	1,223	-	923
	421	1,480	-	1,180
	678	1,480	257	1,180

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 cashflow 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 is to be repaid on or before 31 December 2008. The Company may give notice at any time to convert any stock at 120 per cent 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 is repayable on or before 31 December 2008.

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 cashflow 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.

17. CALLED UP SHARE CAPITAL

Authorised:

Number:	Class:	Nominal value:	2008 £000	2007 £000
1,500 million	Ordinary	0.1p	1,500	1,500

Allotted, called up and fully paid:

Number:	Class:	Nominal value:	2008 £000	2007 £000
424,016,380/346,424,522	Ordinary	0.1p	424	346

On 19 July 2007, the Company increased its authorised share capital to £1.5 million by the creation of 500 million ordinary shares of 0.1p each

The share issues in the period and after the period are noted below.

Date	Number of ordinary shares of 0.1p	Issue price pence	Purpose
29 January 2008	20,000,000	0.5	Placing
18 February 2008	2,000,000	0.1	Exercise of warrants
13 May 2008	53,333,332	0.75	Placing
22 May 2008	1,389,130	0.115	Placing
29 May 2008	869,565	0.115	Placing

18. RESERVES

Group	Translation reserve £'000	Retained losses £000	Share premium £000	Total £000
At 1 February 2007	-	(110)	167	57
Shares issued in the period	-	-	3,339	3,339
Loss for the period	-	(382)	-	(382)
At 31 December 2007	-	(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

18. RESERVES (continued…)

Company

	Retained losses £000	Share premium £000	Total £000
At 1 February 2007	(110)	167	57
Shares issued in the period	-	3,339	3,339
Loss for the period	(382)	-	(382)
At 31 December 2007	(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

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, 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.

19. RISK AND SENSITIVITY ANALYSIS (continued…)

Legal and environmental risk in Ukraine

The Group faces legal and environmental risks in conducting operations in Ukraine 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 are in Ukraine Hryvnia. Any change in the relative exchange rates between Pounds Sterling, and the Ukraine Hryvnia 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.

19. RISK AND SENSITIVITY ANALYSIS (continued…)

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

Group	Financial Assets		Financial Liabilities	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Ukraine Hryvnia (UAH)	243	922	5	126
United States Dollars (US$)	-	-	422	1,227
	243	922	427	1,353

The foreign exchange rates affecting the Group is as follows:

Group	Income statement		Balance sheet	
	2008 £	2007 £	2008 £	2007 £
Ukraine Hryvnia (UAH)	9.82	10.36	11.48	10.27
United States Dollars (US$)	0.54	0.53	0.69	0.51

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. In addition, the Group intends to sell a portion of its crude oil in the Ukraine market, and although these prices have improved recently, prices for crude oil in the Ukraine market have historically been lower than in the international market. The movement of the crude oil prices shown below:

	Average price		
	2008	2007	2006
Per barrel - USD	91.48	64.20	58.30
Per barrel - £	49.40	34.03	29.73

Liquidity risk
The Group expects to fund its exploration and development program, as well as its administrative and operating expenses throughout 2009 principally, using a combination of the proceeds from the fundraising on AIM, existing working capital, expected proceeds from the sale of future crude oil production, and the anticipated exercise of outstanding share warrants. The Company is currently in the process of raising further funds of approximately £200,000 from the issue of new shares.

20. FINANCIAL COMMITMENTS

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

Capital commitments
There was no capital expenditure contracted for at the balance sheet dates but not yet incurred.

21. RELATED PARTY TRANSACTIONS

Group
During the year, the Group advance loan of £101,000 (2007 - £106,000) and charged management fee of £34,300 (2007 - £76,000) to JAA (see Note 10). A at 31 December 2008 the outstanding loan balance due from JAA was £207,000 (2007 - £106,000)

S V Oakes had guaranteed a convertible loan facility of £300,000.
N D Smith, who is a director of the Company up to 10 January 2009, is a shareholder and director of Masterworks and Ucoco. The transactions entered with the companies are disclosed in Note 16.

B W Courtney, who is a directors of the Company has a controlling interest in Ucoco. The transactions entered with Ucoco is disclosed in Note 16.

Company
During the year, NTOL repaid £17,000 (2007 - £nil) to the Company. At the year end, the amount due to the Company from NTOL was £412,000 (2007 - £430,000).

22. SHARE-BASED PAYMENTS

There is no charge for share-based payments as the fair values at the date of grant were below the exercise prices:

The details of the options and warrants are as follows:

	2008		2007	
	Number of options and warrants	Weighted average exercise price Pence	Number of options and warrants	Weighted average exercise price Pence
Outstanding at the beginning of the year	14,060,000	1.7	4,500,000	1.2
Granted – 25 June 2007	-	-	560,000	1.5
Granted – 25 June 2007	-	-	9,000,000	2.0
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	-	-
Balance carried forward	25,100,000	2.0	14,060,000	1.7

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				
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 Belnnerhassett	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

22. SHARE-BASED PAYMENTS (continued…)

The warrants outstanding at 31 December 2007 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
Founders Warrants				
Karin Haugen	02/02/2005	01/02/2008	0.1p	500,000
GCIT Foundation	02/02/2005	01/02/2008	0.1p	500,000
Leo Knifton	02/02/2005	01/02/2008	0.1p	333,334
Stephen Oakes	02/02/2005	01/02/2008	0.1p	333,333
Nigel Weller	02/02/2005	01/02/2008	0.1p	333,333
				2,000,000
'B' Warrants				
Cairns Investment Holdings Ltd	25/06/2007	19/07/2008	1.5p	400,000
Kerry Knoll	25/06/2007	19/07/2008	1.5p	160,000
				560,000
'C' Warrants				
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
				14,060,000

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

	2008	2007
Share price at grant date	1.6p	1.5p
Exercise price	2.0p	As above
Option life in years	7 years	As above
Risk free rate	3.5%	4.4%
Expected volatility	10%	10%
Expected dividend yield	0%	0%
Fair value of option	0p	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 the 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.