

**Mediterranean Oil and Gas Plc**  
**(“the Company or together with its subsidiaries the Group”)**  
**(AIM: MOG)**

**Final Results for the year ending 31 December 2010 and Notice of AGM**

The Directors of Mediterranean Oil & Gas Plc are pleased to present the Company’s final results and financial statements for the year ending 31 December 2010.

A copy of the Company’s annual report and the notice convening the Annual General Meeting will be posted to shareholders today and are available on the Company’s website at [www.medoilegas.com](http://www.medoilegas.com). The Company’s Annual General Meeting will be held at 2.30pm on 29 June 2011 at the offices of Memery Crystal LLP, 44 Southampton Buildings, London WC2A 1AP.

## **HIGHLIGHTS**

### **Corporate and Operational Highlights within the Reported Period**

- January: production concession for Guendalina gas field awarded
- February: 2P oil reserves doubled to 40 MMbbls and proven oil reserves (P1) increased to 12MMbbls at Ombrina Mare field
- April: start-up of field development activities at Guendalina gas field
- May: request made to Maltese Government for the extension of the PSC exploration period by 18 months
- June: credit facility with Bank of Scotland (“BoS”) extended to September 2011
- August: Italian Government approves Decree Law 128, restricting offshore activities within five miles of Italian coast and twelve miles of nature reserves (“Decree”)
- October: appointment of CIBC World Markets to advise Company on review of strategic options
- December: Guendalina gas field’s platform jacket and deck under construction

### **Financial Highlights within the Reported Period**

- Gas production of 12.2 Mscm (0.43 Bcf)
- Revenues from gas sales of €3.49 million
- Loss before tax of €7.78 million

### **Post Balance Sheet Date Highlights**

- February: Tunisian authorities extend Medjerda permit by one year to December 2011
- March: installation of platform jacket at Guendalina gas field completed
- April: drilling of two development wells at Guendalina gas field commences
- April: Company announces proposed capital reorganization
- April: Italian Upstream Association (Assomineraria) submission of formal legal appeal to the European Court to challenge legitimacy of the Decree
- May: Extraordinary General Meeting of shareholders approves £20 million equity raise (before expenses), together with cancellation of BoS loan facility and conversion of convertible bonds and loan notes, to equity. New non-executive directors Andrew Cochran, Miles Donnelly and Michael Seymour appointed to the Board.
- May: Guendalina development drilling completed successfully
- May: PSC Extension agreement signed with Maltese Government on Malta Area 4 (Blocks 4, 5, 6, 7)
- May: advanced negotiations with third party to farm out 75% of the working interest in Malta Area 4 (Blocks 4, 5, 6, 7)

### **Outlook**

- Continued focus on development of the Group’s two key projects, Ombrina Mare and Guendalina, together representing 43 mboe of 2P reserves

- Review and rationalization of the Group's asset base, identifying opportunities to crystallize value
- First gas at Guendalina expected September 2011

**ENQUIRIES:**

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## **CHAIRMAN'S STATEMENT**

*Dear Shareholder,*

Mediterranean Oil & Gas Plc (MOG, the Group or the Company) is pleased to announce the Group's 2010 results.

I am also very pleased to announce that the Company, on May 10, 2011, completed a significant capital reorganisation, which resulted in a fundraising of £20 million (before expenses) and the cancellation of the entirety of the Group's financial debt. This reorganisation has put the Company in a position to fund our portion of the Guendalina Gas field development programme and cover other on-going operational costs. In addition, the Company has appointed three new non-executive board members. I have taken over the role of non-executive Chairman of the Group on May 10, 2011.

During the course of 2010, the Group was adversely impacted by the Italian Government's enactment of Legislative Decree No. 128 (the Decree) on August 26, 2010, which amended the Italian Environmental Code (Decree No. 152/2006). The Decree prohibits offshore exploration and production activities for liquid hydrocarbons within five miles from the Italian coast and twelve miles from nature reserves.

The Company continues to seek clarification from the authorities as to whether fields, upon which previous exploration has confirmed the existence of commercial hydrocarbon quantities, are exempted from the Decree. The Group intends to vigorously challenge any assessment that the Decree is applicable to our Ombrina Mare Oil and Gas permit.

The uncertainty created by the Decree resulted in a decline in support for the Company in the public markets and undermined the Company's capital raising efforts during the course of 2010. Nonetheless, the Group's management focused on exploring financial and strategic strategies to alleviate the Group's financial and liquidity constraints throughout the second half of 2010.

Following the completion of the capital reorganisation, the Company is looking forward to an exciting future and now has a strong foundation for growth. 2011 will be centred on the development of our Guendalina Gas field and progression of plans for the Group's other key assets, as well as the formulation and initial implementation of a revised strategy for growth.

I take this opportunity to thank our shareholders and employees for their continued support for and dedication to the Company.

**Andrew Cochran**

*Non-Executive Chairman*

2 June 2011

## **CHIEF EXECUTIVE OFFICER'S REPORT**

The Group is in a strong position following the capital reorganisation announced in April and approved by shareholders in May 2011. We are now optimistic regarding our ability to fund our stake in the Guendalina gas field development and secure the Company's future.

Looking back, 2010 was a difficult year due to unexpected regulatory developments affecting the Company's key asset, Ombrina Mare, and the uncertain economic environment. However, I am pleased to report that the Group retained a clear focus on securing value from its extensive and diverse asset base and ultimately set the foundation for the capital reorganisation concluded in 2011.

The most important highlights of the period were the following:

- A new independent certification of the oil reserves at Ombrina Mare that doubled 2P oil reserves to 40 MM bbls, including an increase in proven oil reserves (P1) to 12 MMbbls
- Initiation of the development activities at the Guendalina gas field
- Re-assessment of the potential of the existing exploration/production acreage
- Relinquishment of exploration assets with low exploration potential and/or high exploration risk
- Reduction and rationalization of costs and investments

#### **Gas Production and Prices**

In 2010, gas production was approximately 12.3 Mscm (0.43 Bcf), which represented a 12% decline relative to the prior 12 month period. This was largely due to the natural decline of existing fields, which was only partially offset by new gas production brought on stream in 2010.

However, due to an increased average oil price and more favourable US\$/exchange rate, the average gas sales price increased progressively throughout 2010. The average gas sales price in 2010 was 0.27/scm, materially higher than in 2009, when it was 0.22/scm. The price of gas sold under the Company's main off-take contract increased to 0.28/scm (USD 11.30/mcf) in December 2010 from 0.21/scm (USD 8.30 USD/mcf), in December 2009.

The Company's forecasts for future gas prices indicate that this positive trend is expected to continue in 2011, with the gas sales price expected to stabilise at approximately 0.30/scm during the year.

#### **Financial Results**

The financial results during the year continued to be influenced by the adverse economic climate and weak hydrocarbon prices, despite the development of a positive trend in the second half. This, combined with the effect of the Decree which was issued in August in 2010, required the Group to continue to reduce operational activity and investments in the period, particularly in the second half. Group turnover was approximately €3.49 million and loss before taxes, was approximately €7.78 million.

Group revenues declined marginally in 2010, relative to 2009, as a result of the challenging economic conditions and due to the natural depletion of the Group's on shore producing gas fields. The adverse global economic climate continued to influence the Italian gas market, and consequently the performance of the Group in 2010, although the situation continued to improve during the year, with the oil price, and in turn the Italian gas price, gradually increasing.

Looking forward, forecast oil prices and gas prices indicate a sustained positive trend which should enable the Group to remain focussed on short and medium term E&P targets, and progress with first gas at Guendalina expected in September 2011, thereby materially increasing current revenues. Management will consider further opportunities to rationalise costs and the existing exploration portfolio, while progressing development projects and exploration targets.

On 1 June 2010, the Company entered into an amendment agreement with Bank of Scotland Plc ("BoS") ("the Amendment Agreement"), in relation to the €18,000,000 credit facility agreement previously entered into between the Company, Medoilgas Italia S.p.A. as Guarantor, and BoS, on 3 March, 2008 ("the Credit Facility"). Under the Amendment Agreement, the required date for repayment of the principal amount owing by the Company under the Credit Facility was extended from 2 September 2010 to 2 September 2011 ("Final Maturity Date").

Following issuance of the Decree in August 2010, the Group initiated a review of strategic options through the appointment of CIBC World Markets plc ("CIBC") in October. An extensive review process undertaken with a wide range of potential corporate and financial partners resulted in the recapitalisation of the Group in May 2011. Among other things, the Company raised approximately £19.1 m in new equity (post cash transaction expenses), secured cancellation of the BoS Credit Facility and conversion of all outstanding convertible bonds and loan notes to equity (the "Transaction").

Following completion of the Transaction on 10 May 2011, the Group has no financial debt and is now in a position to move forward with significantly greater financial flexibility, given that there are now funds sufficient to cover expected capital expenditure commitments in relation to the Group's 20% interest in the Guendalina project, which remains on schedule to commence first gas in September 2011. This is expected to materially increase the Group's cashflows and further support the Group's longer term financial position and flexibility.

## **Operational Overview**

The development of the Guendalina gas field and of the Ombrina Mare oil and gas field remain the prime projects for the Group.

### **Ombrina Mare**

The Company reported a material upgrade in 2P reserves, as independently verified by SIM, to 40 MMbbls, of which 12 MMbbls are in the proven category.

### *Reserves*

Following completion of key technical field studies, and an independent review by the reservoir engineers, Studio Ingegneria Mineraria (“SIM”), the Group released a revised certification in February 2010, doubling the 2P oil reserves to 40 MMbbls, and increasing proven (P1) oil reserves to just over 12 MMbbls. The new oil reserve numbers establish the Ombrina Mare field as a significant European oil project and further confirm the Group’s technical ability to operate and progress this important project.

The new certification of the oil reserves incorporates the results of detailed technical studies that have been conducted by the Group in 2008-09 and in 2010, in conjunction with qualified contractors, universities and research institutes. A major component of the revised certification is the further development of a detailed 3D geological model, which represents the current “geological most likely case” for the field and incorporates detailed technical analysis of all available data. In 2010, further geological and geophysical studies were progressed. In particular, during the period, a reprocessing in depth of the 3D seismic volume was performed. A new seismic interpretation will be undertaken in 2011.

The revised 2P oil reserves certification will not impact the Field Development Plan (“FDP”) for which approval has been sought, since the facilities proposed for the project have already been designed to support higher production rates. Further, the production platform has been designed with additional flexibility to host a larger number of development wells than are currently assumed in the FDP.

In order to achieve the higher expected production identified by the doubling of 2P oil reserves and to optimize oil recovery from the reservoir, the Group intends to drill four additional wells approximately two to three years following commencement of production. This additional drilling campaign can be conducted from the production platform that will be in place and will not require the construction of any additional offshore facility.

### *Financial Advice*

Further to the Group’s announcement of 12 February 2010 that we had appointed BNP Paribas S.A. (“BNPP”) as financial adviser regarding debt financing, BNPP concluded its preliminary technical and economic assessment in relation to the Ombrina Mare project. BNPP acknowledged the considerable geological and technical work carried out to date by the Group. In particular, BNPP highlighted that the Group’s understanding of the Apula carbonate platform is a key asset and that this instills confidence in the Group’s ability to forecast regional trends and hence, explain the development of Cretaceous and Oligo-Miocene reservoirs on the reef of the platform.

Whilst BNPP has provided the Group with a preliminary opinion as to the potential debt capacity of the Ombrina Mare project, further technical, costs, legal and fiscal analysis is required to confirm that the project is ready for project financing, and to confirm the maximum level of debt capacity which may be achieved.

### *Authorization process*

During the period up until August 2010, when the Decree was introduced by the Italian Government, the Group continued to progress the permitting process on schedule by continuing the environmental approval process with the objective of securing all required permits by the end of 2010. Technical approval of the Ombrina Mare FDP was issued in June 2009.

### *Restrictions on E&P Activities – Offshore Italy*

On August 26, 2010, Legislative Decree No. 128 (the “Decree”) came into force. The Decree amended the Italian Environmental code (Decree No. 152/2006), prohibiting certain offshore exploration and production activities for liquid hydrocarbons within five miles of the coast line and within twelve miles of nature reserves.

The Company continues to pursue clarification from the authorities as to whether fields upon which previous exploration and/or appraisal activities have confirmed the presence of commercial hydrocarbon quantities, are exempted from the Decree. As previously stated, the Company intends to vigorously challenge any assessment that the Decree is applicable to the Ombrina Mare project.

The Company, in conjunction with other Italian market operators, has undertaken significant efforts with the authorities to clarify the Decree and demonstrate the impact on the entire Italian upstream sector of this legislation. In April 2011, the Italian Upstream Association (Assomineraria) submitted an appeal to the European Court of Justice regarding the Decree. The Group believes that it has secured rights under pre-existing legislation covering the significant investments undertaken during the exploration and appraisal campaign at Ombrina Mare and that such rights should be recognized by the authorities.

### **Guendalina**

The Guendalina gas field is located approximately 47km from the Italian coast and is therefore unaffected by the Decree. MOG has a 20% interest in the Guendalina gas field which is operated by ENI, with an 80% interest. The Guendalina gas field has independently certified 2P gas reserves of 22 Bcf (100% basis).

Based on studies performed by ENI, aggregate gas production from the Guendalina field is expected to be approximately 20 MMcf/day (100% basis); 4MMcf/day net to MOG. Guendalina is expected to achieve first gas in September 2011 and significantly increase the Group's net gas production and revenues.

Following award of the concession, field development activities commenced in 2010. Under the Field Development Plan (FDP), construction and installation of the production platform, together with the drilling of two development wells, were scheduled for the first half of 2011; gas production was scheduled to commence in September 2011.

The production platform jacket was installed in March 2011. Drilling of the two development wells commenced in April 2011 and was successfully completed in May 2011. Gas presence and reserves have been confirmed, following completion of the 2 well producer and production tests. As at the date of this report, the project continues to proceed on schedule under the FDP, with "first gas" confirmed by ENI to occur in late September 2011.

### **Other North Adriatic Discoveries**

The Guendalina project is part of one of the most important gas exploration and production areas in Italy and is situated 70 km to the south of four other undeveloped gas fields in which the Group has a 15% interest (ENI, Operator). These four gas discoveries amount to between 19 to 48 Bcf net contingent gas resources to the Group. Their reclassification to 2P reserves is expected to take place following authorisation of the development plans for the fields.

Development activity for these fields has been frozen since 2001, pending the resolution of certain environmental issues. The Italian Government indicated in 2009 that it is in favour of a positive resolution of these issues in this area of the Northern Adriatic.

A portion of these concessions lies within 12 miles of nature reserves and therefore may be impacted by the Decree. As the majority of the fields lie outside the 12 mile boundary, the Company expects the operator, ENI, to review the status of the concessions and subsequently, to present a field development plan.

### **Exploration Activities**

#### *Italy*

In the Southern Apennines, the Group operates the Monte Grosso project, holding a 22.89% interest. The project is a near field exploration opportunity close to the largest onshore oil producing area in Western Europe. The Monte Grosso 2 exploration project presently remains on hold, pending resolution of residual permitting issues, which the Group presently believes should be positively resolved and allow a project start up within 2012 (subject to rig availability). The Monte Grosso 2 well is targeting 280 mmbbls of unrisks prospective resources (64 mmbbls net to the Group).

In addition, the Group also has a number of on-shore gas exploration prospects, some within existing production concessions, which have the potential to unlock approximately 8 to 10 Bcf net unrisks prospective resources to the Group and achieve new near mid-term gas production.

### Outside Italy

The Group operates Area 4 Offshore Malta (MOG stake: 90%). Area 4 comprises approximately 5,700 square kilometers on the internationally-recognised border between Malta and Libya.

The Malta Production Sharing Contract (“PSC”) was signed with the Maltese Government in July 2008, with an 18 month extension to the PSC exploration period being agreed in May 2011.

In the first two years following entry into the Malta PSC, the Group was primarily active in continuing the technical assessment of the asset and nine prospects have been identified for a total of 1,500 MMbbls of unrisks prospective oil resources. As part of the technical assessment, the reprocessing in depth of the existing 3D seismic volume was completed in February 2011 and the reinterpretation of data was initiated.

### Oil & Gas Reserves and Resources

The Group’s reserves and resources are reviewed each six months by independent certification (2P Reserves) and by the Company (Contingent & Prospective Resources).

The following tables summarise the evolution of the Group’s hydrocarbon reserves and resources since 2006 and include the latest update, as at 31st December 2010.

In 2010:

- 2P Oil reserves doubled due to a revised independent certification of Ombrina Mare (SIM); and
- 2P Gas reserves increased by 6.7% due to the independent revision of the Group’s onshore production concessions (SIM).

#### Net Oil Reserves & Resources in MMbbls

	Reserves Proven plus Probable (2P) MMbbls	Best Estimate Contingent Resources MMbbls	High Estimate Contingent Resources MMbbls	Prospective Resources (unrisks) Best Estimate MMbbls	Prospective Resources (unrisks) High Estimate MMbbls
1 July 2006	0 <sup>1</sup>	29 <sup>2</sup>	70 <sup>2</sup>	1,577 <sup>3</sup>	4,447 <sup>3</sup>
30 June 2007	0 <sup>1</sup>	29 <sup>2</sup>	70 <sup>2</sup>	1,291 <sup>4</sup>	3,614 <sup>4</sup>
30 June 2008	20 <sup>1</sup>	12 <sup>2</sup>	19 <sup>2</sup>	1,419 <sup>4</sup>	3,951 <sup>4</sup>
31 December 2008	20 <sup>1</sup>	12 <sup>2</sup>	19 <sup>2</sup>	1,419 <sup>4</sup>	3,951 <sup>4</sup>
31 December 2009	20 <sup>1</sup>	12 <sup>2</sup>	19 <sup>2</sup>	1,419 <sup>4</sup>	3,951 <sup>4</sup>
31 December 2010	40 <sup>1</sup>	12 <sup>2</sup>	19 <sup>2</sup>	1,405 <sup>4</sup>	3,920 <sup>4</sup>

Source: 1: independent certification by SIM.

2: Company assessment

3: RPS assessment

4: RPS assessment except for Company assessment of Monte Ardone and Monte Grosso with total of 74 MMbbls Best Case and 109 MMbbls High Case

#### Net Gas Reserves & Resources in Bcf

	Reserves Proven Plus Probable (2P) (Bcf)	Contingent Resources Best Estimate (Bcf)	Contingent Resources High Estimate (Bcf)	Prospective Resources (unrisks) Best Estimate (Bcf)	Prospective Resources (unrisks) High Estimate (Bcf)
1 July 2006	12 <sup>1</sup>	21 <sup>2</sup>	50 <sup>2</sup>	20 <sup>2</sup>	44 <sup>2</sup>
30 June 2007	11 <sup>1</sup>	25 <sup>2</sup>	61 <sup>2</sup>	70 <sup>2</sup>	138 <sup>2</sup>
30 June 2008	10 <sup>1</sup>	25 <sup>2</sup>	55 <sup>2</sup>	93 <sup>2</sup>	158 <sup>2</sup>
31 December 2008	17 <sup>1</sup>	25 <sup>2</sup>	55 <sup>2</sup>	93 <sup>2</sup>	158 <sup>2</sup>

31 December 2009	16.5 <sup>1</sup>	25 <sup>2</sup>	55 <sup>2</sup>	93 <sup>2</sup>	158 <sup>2</sup>
31 December 2010	17.6 <sup>1</sup>	25 <sup>2</sup>	55 <sup>2</sup>	48 <sup>2</sup>	120 <sup>2</sup>

Source: 1 independent certification by SIM; 2 Company assessment.

## Health, Safety and Environment

The Group continues its commitment to maintaining the highest standards in health, safety and environmental management. No environmental accidents or injuries have been reported in 2010.

### Michael Bonte-Friedheim

*Chief Executive Officer,  
appointed 9 May 2011*

### Sergio Morandi

*Chief Executive Officer,  
up to 9 May 2011  
Chief Operating Officer, appointed 9 May 2011*

2 June 2011

## Qualified person

Sergio Morandi (a director of the Company) holds a first class honours degree in geology from La Sapienza University (Rome) and has over twenty eight years E & P experience spent in oil and gas exploration and operations management and seismic data acquisition, processing and interpretation with ENI, Coparex, ELF, Enterprise Oil, Shell Italia E&P and Shell International E&P. Mr. Morandi's last position held was as International Geophysical and Business Advisor with Shell International E&P at EPTS – Centre of Expertise in The Netherlands. His earlier roles include Head of Exploration for Shell Italia E&P and as Head of Exploration and Chief Geophysicist for Enterprise Oil Italiana. Mr. Morandi has been a lecturer in Applied Seismology at the Basilicata University in Italy, is a board member of Associazione Mineraria Italiana, is a current member of the European Association of Geoscientists and Engineers, registered member number 563 of the Lazio Geologists' Order and is a registered geological adviser to the Rome and Viterbo Tribunals in Italy. He has compiled, read and approved the technical disclosure in this regulatory announcement. The technical disclosure in this announcement complies with the SPE/WPC standard.

## Glossary

Bbls/day	Stock tank barrels of oil per day
BBbbls	Billion stock tank barrels of oil
Bcf	Billion cubic feet of gas
Contingent oil/gas resources	Has the meaning ascribed by the SPE/WPC Standard
FPSO	Floating production, storage and offloading
Mcf	Thousand cubic feet of gas
MMcf	Million cubic feet of gas
MMbbls	Million stock tank barrels of oil
MMscm	Million standard cubic metre
OBM2 DIR	Horizontal appraisal well drilled on the Ombrina Mare Oil & Gas Field and completed as an oil producer in June 2008
P1 & P2 Reserves	Proven plus probable reserves as defined in the SPE/WPC Standard
Prospective oil/gas resources	Has the meaning ascribed by the SPE/WPC Standard
Scm	Standard cubic meter
SPE/WPC	Society of Petroleum Engineers/World Petroleum Congress
SPE/WPC Standard Definitions and methodology for certifying hydrocarbon reserves and resources adopted by the SPE/WPC from time to time which presently require the application of the 2007 Petroleum Resources Management System standards.	

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	2010 €000	2009 €000
<b>Revenues</b>		3,488	3,666
Cost of sales		(2,021)	(2,512)
<b>Gross Profit</b>		1,467	1,154
Other income		554	241
<b>Administrative expenses</b>			
Depreciation, depletion and amortisation		(1,179)	(1,164)
Impairment		(3,388)	(1,583)
Other administrative expenses		(2,935)	(2,370)
<b>Total administrative expenses</b>		(7,502)	(5,117)
<b>Loss from operations</b>		(5,481)	(3,722)
<b>Finance costs</b>			
Unwinding of discount on provisions		(738)	(464)
Other finance expense		(1,497)	(1,010)
Foreign exchange		(549)	(195)
<b>Total finance expense</b>		(2,784)	(1,669)
Finance income		32	34
Fair value gain on derivative		450	387
<b>Total finance income</b>		482	421
<b>Loss before tax</b>		(7,783)	(4,970)
Tax expense		(37)	(52)
<b>Loss for the year and total comprehensive income attributable to the equity holders of the parent</b>		(7,820)	(5,022)
<b>Loss per share attributable to the equity holders of the parent</b>	2		
– Basic and diluted		€(0.20)	€(0.13)

All amounts relate to continuing activities.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share Capital €000	Share Premium Reserve €000	Warrant and Share Option Reserve €000	Convertible Debt Option Reserve €000	Retained Losses €000	Total €000
<b>Group</b>						
At 1 January 2009	11,285	20,053	1,026	68	(8,151)	24,281
<b>Total comprehensive income for the period</b>	–	–	–	–	(5,022)	(5,022)
Share-based payments	–	–	169	–	–	169
Lapse of options	–	–	(472)	–	472	–
As at 31 December 2009	11,285	20,053	723	68	(12,701)	19,428
At 1 January 2010	11,285	20,053	723	68	(12,701)	19,428
<b>Total comprehensive income for the period</b>	–	–	–	–	(7,820)	(7,820)
Share-based payments	–	–	217	–	–	217
Lapse of options	–	–	(81)	–	81	–
As at 31 December 2010	11,285	20,053	859	68	(20,440)	11,825

The following describes the nature and purpose of each reserve within owners' equity:

<b>Reserve</b>	<b>Description and purpose</b>
Share capital	Amount subscribed for ordinary share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Warrant and share option	Cumulative fair value of warrants and options, adjusted for transfers on exercise of share options and warrants
Convertible debt option	Equity component of convertible bonds
Retained losses	Cumulative net gains and losses recognised in the consolidated income statement, adjusted for transfers on exercise of share options.

## CONSOLIDATED BALANCE SHEET

At 31 December 2010

	Note	2010 €000	2009 €000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment (PPE)	3	3,597	5,976
Exploration and evaluation assets	4	29,557	29,436
Available for sale investment		34	34
Other receivables		1,988	1,909
Total non-current assets		<u>35,176</u>	<u>37,355</u>
<b>Current assets</b>			
Inventories		2,603	2,635
Trade and other receivables		3,918	3,023
Cash and cash equivalents		2,810	5,907
Total current assets		<u>9,331</u>	<u>11,565</u>
<b>Total assets</b>		<u>44,507</u>	<u>48,920</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		5,525	3,794
Financial Liabilities		20,351	–
Other financial liabilities		28	478
Corporation tax liability		109	115
<b>Total current liabilities</b>		<u>26,013</u>	<u>4,387</u>
<b>Non-current liabilities</b>			
Financial liabilities		–	17,766
Provisions		6,669	7,339
Total non-current liabilities		<u>6,669</u>	<u>25,105</u>
Total liabilities		<u>32,682</u>	<u>29,492</u>
<b>Net Assets</b>		<u>11,825</u>	<u>19,428</u>

## CONSOLIDATED BALANCE SHEET (Continued)

At 31 December 2010

	Note	2010 €000	2009 €000
<b>Capital and reserves attributable to equity holders of the company</b>			
Share capital		11,285	11,285
Share premium reserve		20,053	20,053
Warrant and share option reserve		859	723
Convertible debt option reserve		68	68
Retained losses		(20,440)	(12,701)
<b>Total Equity</b>		<b>11,825</b>	<b>19,428</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Note	2010 €000	2009 €000
<b>Cash flows from operating activities</b>			
Loss for the year		(7,820)	(5,022)
Adjustments for:			
Depreciation, depletion and amortization		1,134	1,164
Impairment		3,140	1,583
Share-based payments expense		217	169
Loss on disposal of PPE		56	12
Finance income		(482)	(421)
Finance expense		1,497	1,010
Income tax expense		37	52
Finance impact on decommissioning actualization		738	464
		<hr/>	<hr/>
<b>Cashflows from operating activities before changes in working capital and provisions</b>		(1,483)	(989)
Decrease in inventories		32	188
(Increase)/Decrease in trade and other Receivables		(674)	1,578
Increase/(Decrease) in trade and other Payables		1,785	(3,543)
Increase/(Decrease) in provisions		328	(128)
Taxes paid		6	-
<b>Net cash flows used in operating profits</b>		<hr/> (6) <hr/>	<hr/> (2,894) <hr/>
<b>Investing activities</b>			
Purchases of PPE & intangible assets		(3,698)	(1,379)
Interest received		32	34
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		(3,666)	(1,345)
<b>Financing activities</b>			
Interest paid		(426)	(348)
Loan draw down		1,001	-
Convertible		-	4,896
Costs of financing		-	(96)
		<hr/>	<hr/>
<b>Net cash generated from financing activities</b>		575	4,452
<b>Net decrease/(increase) in cash and cash Equivalents</b>	21	<hr/> (3,097) <hr/>	<hr/> 213 <hr/>
Cash and cash equivalents at the beginning of the year		5,907	5,703
<b>Foreign exchange losses on cash and cash equivalents</b>		<hr/> - <hr/>	<hr/> (9) <hr/>
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year		2,810	5,907

## 1 Accounting policies

### *Basis of preparation*

The financial statements of the Group for the twelve months ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS.

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2010 or 31 December 2009 but is derived from those accounts. This announcement does not constitute the Group's annual report and statutory accounts. The auditor's report on those financial statements was unqualified but did include a reference concerning the uncertainties surrounding the carrying value of the Ombrina Mare asset, which is recorded in the financial statements for the year ended 31 December 2010 at €17.9m, to which the auditors drew attention by way of emphasis and did not contain a statement under s498 (2) – (3) of Companies Act 2006.

### *Going Concern*

The directors consider that it is appropriate for the accounts to be prepared on a going concern basis. At 31 December 2010, the Group had net assets of €1.285m and net current liabilities of €6.682m. At that date, the Group had an €18m bank facility in place with Bank of Scotland (BoS) the repayment date of which had previously been extended by one year, from 2 September 2010 to 2 September 2011. On this facility, draw downs at 31 December 2010 amounted to €5.584m (December 2009: €5.583m).

On 10 May 2011, the Group completed a recapitalisation and share re-organisation comprising, among other things, cancellation of the bank facility with BoS, conversion of all outstanding Convertible Bonds and Loan Notes to new equity, and issuance of new equity in the Company (the "Recapitalisation Transaction"), raising net proceeds after cash transaction expenses before settlement of the BoS bank facility, of approximately £19.1m (Refer Note 25 Post Balance Sheet Events, for further information). Management has prepared cash flow projections which reflect the effect of the Recapitalisation Transaction and indicate that the Group can continue to meet its liabilities as they fall due and meet minimum spend commitments on its licences for a period of not less than 12 months from the date of the financial statements.

## 2 Loss per share

	2010 €000	2009 €000
<b>Numerator</b>		
Loss for the year	(7,820)	(5,022)
<b>Denominator</b>		
Weighted average number of shares used in basic EPS	38,912,736	38,912,736
Potential ordinary shares are excluded on the grounds that they are non dilutive.		
Loss per share attributable to the equity holders of the parent		
– Basic and diluted	€(0.20)	€(0.13)

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS (Continued)**

*For the year ended 31 December 2010*

**3 Property, plant and equipment**

<b>Group</b>	<i>Plant and equipment €'000</i>	<i>Oil and gas properties €'000</i>	<i>Total €'000</i>
<b>Cost</b>			
At 1 January 2009	1,530	10,274	11,804
Additions	9	151	160
Transfers	–	(114)	(114)
Movement on decommissioning assets	–	798	798
Disposals	(108)	–	(108)
At 31 December 2009	1,431	11,109	12,541
Additions	11	226	237
Movement on decommissioning assets	–	(221)	(221)
Disposals	(57)	–	(57)
At 31 December 2010	1,385	11,114	12,500
<b>Depreciation</b>			
At 1 January 2009	(771)	(4,768)	(5,539)
Charge for the year	(128)	(992)	(1,120)
Disposals	95	–	95
At 31 December 2009	(804)	(5,760)	(6,564)
Charge for the year	(148)	(986)	(1,134)
Impairments	(228)	(1,097)	(1,325)
Disposals	1	119	120
At 31 December 2010	(1,179)	(7,724)	(8,903)
<b>Net book value</b>			
At 31 December 2010	207	3,390	3,597
At 31 December 2009	627	5,349	5,976

**Recognition of impairment losses**

The assets affected by impairment losses are oil and gas properties. Management reviewed the carrying values of all properties, classified as tangible assets pending evaluation of commercially viable reserves, to ascertain the recoverability of values in respect of concessions where facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Recoverable amount is based on value in use. A discount rate of 10% has been used in the value in use calculation.

As a result of this exercise and due to natural depletion of fields, an impairment loss of €1.324m was recognised for tangible assets during the year and represents the impairment provision to bring the assets to their estimated recoverable value from sale or production. The impairments can be summarised as follows, €0.220m San Andrea concession (Anzano field), €0.642m San Mauro concession (San Mauro field) and €0.462m for the Misano Adriatico concession (Misano field).

## 4 Intangible assets

	<i>Gas storage asset €'000</i>	<i>Other oil and gas exploration and evaluation assets €'000</i>	<i>Total Group oil and gas exploration and evaluation assets €'000</i>	<i>Company Oil and gas Exploration and evaluation assets €'000</i>
<i>Cost</i>				
At 1 January 2009	2,441	26,401	28,842	190
Additions	–	1,219	1,219	–
Transfers/Other movements	–	149	149	–
Impairment	–	(583)	(583)	–
Movement on decommissioning asset	1,068	44	1,112	–
At 31 December 2009	3,509	27,230	30,739	190
Additions	–	2,707	2,707	–
Transfers/Other movements	–	741	741	–
Impairment	–	(470)	(470)	–
Movement on decommissioning assets	(816)	(422)	(1,238)	–
At 31 December 2010	2,693	29,786	32,479	–
<i>Depreciation and Impairment</i>				
At 1 January 2009	(119)	(141)	(260)	–
Charge for the period	–	(43)	(43)	–
Impairment	(1,000)	–	(1,000)	–
At 31 December 2009	(1,119)	(184)	(1,303)	–
Charge for the period	–	(45)	(45)	–
Impairment	(1,574)	–	(1,574)	–
At 31 December 2010	(2,693)	(229)	(2,922)	–
<i>Net book value</i>				
At 31 December 2009	2,390	27,046	29,436	190
<i>Net book value</i>				
At 31 December 2010	–	29,557	29,557	–

## 5 Segmental reporting

In the opinion of the Directors, the operations of the Group companies comprise one single operating segment conducting exploration, development, production, and sale of hydrocarbons and related activities. The Group operates in one geographic area, Italy. The Group's oil and gas revenues are generated entirely in Italy and result from sales to European based customers. 98% of Group revenue is generated from sales of gas and condensate to four customers (2009: 98%).

The primary financial statements presented reflect all the activities of this single operating segment. For the Group's single operating segment these are the key reportable items:

	<i>2010 €'000</i>	<i>2009 €'000</i>
Total Revenues	3,488	3,666
Profit before tax	(7,820)	(4,970)
Total Non Current Assets	35,176	37,355
Total Non Current Liabilities	6,669	25,105

Non-Current Assets comprise investment in oil and gas assets and other non-current receivables. The Group's other segment, being exploration in Malta, did not meet the quantitative threshold required by IFRS 8. Management have therefore concluded that no separate segment reporting is required. In future, as the segment meets the quantitative threshold, relevant disclosures will be provided.

## **6 Events after the reporting period**

On 10 May 2011, the Group raised £20 million before expenses (approximately £19.1 million net of cash transaction expenses) by the subscription for 333,333,333 new ordinary shares in the Company (the "Subscription") at 6 pence each ("Subscription Price"). In addition, the Company agreed terms with BoS, Stark Select Asset Master Limited ("Stark Select") as holder of the Convertible Bonds, and with holders of the Convertible Loan Notes ("CLNs"), as a result of which, all outstanding amounts due to the BoS under bank facility were settled and all outstanding Convertible Bonds and CLNs were converted into new ordinary shares (together, the "Conversion Shares") of the Company at a price of 24 pence per new ordinary share (together, the "Group Recapitalisation"). As a result of the Group Recapitalisation, the Group does not have any outstanding financial debt.

The nominal value of the existing ordinary shares as at 31 December 2010, is 20 pence. The issue of new shares at the Subscription Price therefore required the adjustment of the nominal value of each of the Company's ordinary shares to 1 penny, rather than 20 pence.

The gross proceeds of the £20 million equity raise will be used to fund the Group's required capital expenditure for the Guendalina project (MOG: 20% interest), settlement of the bank facility with BoS, the Group Recapitalisation transaction expenses and the Group's working capital needs.

### *Debt Cancellation*

Pursuant to a cancellation letter agreement dated 21 April 2011 between BoS, the Company and Medoilgas Italia S.p.A. and documents ancillary thereto, BoS agreed to settle all outstanding principal and interest owed by the Company to it under the BoS loan facility.

### *Conversion of Convertible Bonds and Convertible Notes*

The holder of all of the outstanding Convertible Bonds, Stark Select, agreed to convert the whole of the outstanding principal amount of its Convertible Bonds into 19,858,333 Conversion Shares at a price of 24 pence per Conversion Share.

With the approval of an extraordinary resolution of the holders of the CLNs, the Company agreed to amend the deed poll constituting the CLNs to give the Company the right to convert the outstanding CLNs at its election into 21,061,225 Conversion Shares, at a price of 24 pence per Conversion Share. The Company elected to convert all of the outstanding CLNs.

The original conversion prices of the CLNs and the Convertible Bonds were 40 pence and 50 pence respectively and the Company had no right to require conversion. The amendments to the terms and conversion prices of the CLNs and the Convertible Bonds were necessary to enable the Subscription and the Debt Cancellation to take place. The Conversion Shares were issued credited as fully paid, subject to the memorandum of association and Articles of the Company and rank *pari passu* in all respects with new ordinary shares then in issue, including the right to receive any future dividends and other distributions.

### *Share Re-organisation*

The Subscription Price of 6 pence was below the nominal value of the ordinary shares of the Company, of 20 pence. As Company law prohibits the issue of shares at a price less than their nominal value, in order to effect the Subscription, a share reorganisation was undertaken whereby each ordinary share of the Company was subdivided into one new ordinary share with nominal value of 1 penny and one deferred share with nominal value of 19 pence (the "Share Reorganisation").

The Share Reorganisation resulted in 38,912,736 new ordinary shares and 38,912,736 deferred shares (the "Deferred Shares") being in issue immediately following the Share Reorganisation but before the completion of the Group Recapitalisation.

After the implementation of the Share Reorganisation the nominal value of each new ordinary share was one twentieth of that of each existing ordinary share. Each new ordinary share has the same rights (including voting and dividend

rights and rights on a return of capital) as each ordinary share existing prior to completion of the Group Recapitalisation.

The rights attaching to the Deferred Shares, which are set out below and for which no application for admission to trading on AIM has been made, are minimal, thereby rendering them effectively valueless. The rights attaching to the Deferred Shares can be summarised as follows:

- they do not entitle holders to receive any dividend or other distribution or to receive notice of, attend, speak at or vote at general meetings of the Company;
- on a return of assets on a winding up, they will only entitle the holder to the amounts paid up on such shares after the repayment of £10 million per New Ordinary Share;
- they authorise the Company to appoint any person to execute on behalf of the holders of the Deferred Shares a transfer of such shares to the Company, or such person as the Company may nominate as custodian, without any payment therefore and without the sanction of the holders of the Deferred Shares; and
- the creation and issue of further shares which rank equally or in priority to the Deferred Shares or the passing of a resolution of the Company to cancel the Deferred Shares or to effect a reduction in capital shall not constitute a modification or abrogation of their rights.

There are no immediate plans to purchase or cancel the Deferred Shares, but the Company may seek to do so in the future.

## **7 Contingent liability**

There are no contingent liabilities as at the date of this report.