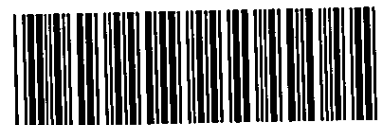




Surestream Petroleum Limited

**REPORT AND FINANCIAL STATEMENTS
for the year ended
31 December 2011**

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Company Registration No 5238607

Surestream Petroleum Limited

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Surestream Petroleum Limited

DIRECTORS AND OFFICERS

DIRECTORS

Pierre Achach
Christopher N Pitman
Jan A Nielsen
Ahmed Khelif

SECRETARY

Collyer Bristow Secretaries Limited

REGISTERED OFFICE

4 Bedford Row
London
WC1R 4DF

INDEPENDENT AUDITOR

Baker Tilly UK Audit LLP
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

Surestream Petroleum Limited

DIRECTORS' REPORT

The directors submit their report and the financial statements of Surestream Petroleum Limited ("the Company") for the year ended 31 December 2011

PRINCIPAL ACTIVITY

The principal activity of the Company and its subsidiaries (the "Group") during the year was oil and gas exploration in the Democratic Republic of the Congo ("DRC"), Burundi and Malawi

REVIEW OF THE BUSINESS

Democratic Republic of the Congo

During 2011, the Group incurred US\$12.4 million in gross exploration activities in the DRC

Yema and Matamba-Makanzi ("YMM") PSA

The Group began 2011 with the evaluation of the results of the YMM-1 well, which was spudded on 17 November 2010, and was drilled to a total depth of 2,263m before it was plugged and abandoned (P&A) on 29 December 2010. The primary objectives were dry but the secondary objective, the Chela Formation, had a thin 3.7m oil column. The Chela Formation was found to be 39m thick, which is the thickest Chela Formation seen in the area.

On 21 December 2010, a 6-month extension was received from the DRC Government to the first exploration period of the YMM PSA. By this extension, the deadline for the Group and its partners to enter into the second exploration period in the DRC licences was postponed to 1 August 2011.

The Group informed the DRC Government of its intention to enter the second exploration period of the PSA on 29 June 2011. Subsequently the relinquishment of 50% of the surface in line with the PSA requirements was agreed with the government. The areas relinquished were selected by the Group and resulted in decreased lease costs without the loss of value in the license. At the current time a formal agreement for the renewal of the Exploration Permit has been granted by the Ministry of Hydrocarbons, but the new Exploration Permit for the second exploration period is yet to be received from the DRC Government.

Following the evaluation of the results of the YMM-1 well, Glencore informed the Group that it was farming out its entire equity interest in the block to Pluspetrol, a privately held Argentinean company with interests in the adjoining block in Cabinda to the north of YMM. Glencore have signed a farm-out agreement and made applications for regulatory approvals in July 2011. Due to absence of an approval from the DRC Government to this transfer for the following 10 months, Pluspetrol decided to terminate the farm-out agreement on 1 June 2012. As a result of this Glencore also decided to withdraw from the license in early June 2012. While this report is being prepared a new farm-out agreement was being drafted to transfer Glencore's participating interest in the license back to Surestream at no cost.

Ndunda PSA

On 21 December 2010, Surestream was granted a 6-month extension to the first exploration period of the Ndunda PSA. By this extension, the deadline for Surestream to enter into the second exploration period in the DRC blocks was postponed to 1 August 2011.

The Group informed the DRC Government of its intention to enter the second exploration period of the PSA on 29 June 2011. Subsequently the relinquishment of 50% of the surface in line with the PSA requirements was agreed with the government. The areas relinquished were selected by the Group and resulted in decreased lease costs without the loss of value in the license. At the current time a formal agreement for the renewal of the Exploration Permit has been granted by the Ministry of Hydrocarbons, but the new Exploration Permit for the second exploration period has not yet been received from the DRC Government.

During 2010, the Group concluded a farm-out agreement with the Italian oil company ENI and have successfully transferred 55% of the participating interest in the Ndunda licence to ENI's DRC entity. As of 1 October 2011, ENI formally took over the operatorship of the Ndunda licence from Surestream and began preparation for drilling an exploration well in the block during 2012.

Surestream Petroleum Limited

DIRECTORS' REPORT

Burundi

During 2011, the Group worked on interpreting all gathered and reprocessed data and integrating the results with the forthcoming seismic acquisition programme

Following the approval of the Environmental and Social Impact Assessment ("ESIA") on 9 December 2010, work commenced on the purchase and consolidation of the equipment that is required for the conversion of the Tanganyika Explorer vessel from a fishery research vessel into a seismic acquisition vessel. By the end of 2011 a significant proportion of the equipment had been manufactured or purchased and the purchasing was completed during 2012. Subsequent to the completion of the purchasing all equipment were shipped to Burundi in early July.

Costs incurred in Burundi exploration operations totalled US\$4.3 million in 2011.

Malawi

The Group has been pursuing two exploration blocks over Lake Malawi and made a formal application to the Government of Malawi in late 2010 to obtain exploration licenses for these selected blocks. Following a successful pre-licensing period the Group secured the grant of two prospecting licenses (Block 2 and 3) from the Government of Malawi on 22 September 2011. These two blocks are the largest additions to the Group's exploration acreage portfolio with a total area of 20,000 km². Following the grant of the licenses, the Group deployed management staff to the country to establish the formal representation of the Group in Lilongwe and began the process of planning for an ESIA study, which started in the first quarter of 2012.

During 2011, the Group incurred US\$1.6 million of exploration costs in Malawi.

Financing

During the whole of 2011, the Group funded its exploration operations from its cash reserves that were available at the beginning of the year. The Group's operations are funded exclusively by shareholder equity and new equity is issued on the basis of expected commitments. A recent convertible loan issue, which was closed in July 2012 by full subscription of the majority of shareholders, raised US\$5 million, which satisfies cash requirements until the end of 2012.

Key Performance Indicators ("KPIs")

The Board has defined the below key performance indicators ("KPIs") in measuring the Group's performance in 2011 based on its strategy,

- 1 Total acreage held. During the financial period under review, the Group has increased the total gross acreage it holds to 22,433 square km (2010: 3,556 square km).
- 2 Total gross exploration expenditure. The Group has incurred the sum of US\$18.4 million in gross exploration expenditure (2010: US\$16.9 million).
- 3 Ratio of administrative expenses to gross exploration expenditure. In 2011, administrative expenses were 0.148 times the gross exploration expenditures (2010: 0.135 times).
- 4 Ratio of corporate social responsibility ("CSR") expenditures to gross exploration expenditure. In 2011, CSR expenditures represented 6% of the gross exploration expenditure (2010: 4%).
- 5 Employee retention rate. In 2011, the employee retention rate stood at 93% (2010: 97%).

FUTURE DEVELOPMENTS

The Group will continue its exploration operations in its licenses in the DRC, Burundi and Malawi. The main activities on the existing assets in 2012 are planned to be the following;

- 1 YMM PSA (DRC). A minimum work programme for the second exploration period was submitted on 29 June 2011, which included a 3D seismic survey. Firstly the Group is intending to reach an agreement with the DRC Government to extend the second exploration period by one year due to the ongoing delay in receiving the formal Exploration Licence document. It is expected that the Exploration Licence will be received from the DRC Government before the end of 2012. Following the transfer of Glencore's participating interest, the Group is intending to engage a new farm-in partner and commence the second exploration period work programme.

Surestream Petroleum Limited

DIRECTORS' REPORT

- 2 Ndunda PSA (DRC) A minimum work programme for the second exploration period was submitted on 29 June 2011. It included the drilling of a well during 2012 by ENI under the terms of the PSA. ENI carried out the necessary work to define a drilling location and to plan and organise the equipment to allow the well to be drilled. As of the date of this report, the Exploration Licence is still expected by ENI from the DRC Government.
- 3 Burundi Licences (Block D and Block B) The equipment, material and supplies required for the conversion of the Tanganyika Explorer vessel from a fishery research vessel into a seismic acquisition vessel were all acquired by the end of July 2012 and shipped to Burundi in the same month. It is intended that the conversion of the vessel will be completed by the end of the first quarter of 2013 with a view to commencing the acquisition programme by April 2013.
- 4 Malawi Licences (Block 2 and Block 3) The work on the ESIA began in the first quarter of 2012 and the final report is scheduled to be completed by the middle of the last quarter of 2012. It is intended that aerial surveys will be commenced during early 2013. Initial planning on the options and methodology for acquiring seismic data on Lake Malawi will be carried out throughout 2013.

EVENTS SINCE THE END OF THE YEAR

In April 2012, the Board mandated a financial advisory firm in the UK to advise the Group on the identification of a strategic investor to make a capital injection to the Group.

In July 2012, Group carried out a rights issue in the form of short term loans convertible to ordinary shares. The issue was fully subscribed and total of US\$5 million was raised from the current shareholders.

RISK MANAGEMENT

The business of exploring for oil and gas involves a high degree of technical, political and regulatory risk. In addition, the Group is exposed to a number of financial risks which the Board seeks to minimise by adopting a prudent approach which is consistent with the corporate objectives of the Group. These risks are summarised below.

Technical Risk

Substantial expenditure is required to establish reserves and to conduct feasibility studies. Although substantial benefits may be derived from the discovery of significant oil and gas reserves, geographical location can present logistical difficulties and no assurance can be given that reserves will be discovered in sufficient quantities or having sufficient grade to justify commercial operations, or that funds required for development can be obtained on a timely basis.

Political and Regulatory Risk

The Group is currently conducting its operations mainly in Democratic Republic of Congo, Burundi and Malawi. The Board believes that the Governments of these countries support the development and exploitation of natural resources. However, there is no assurance that future political and economic conditions in these countries will not result in the Governments changing their political attitudes towards oil and gas exploration and adopting different policies in respect of the exploration, development and ownership of resources. Any such changes in policy may result in changes in laws affecting ownership of assets, land tenure and exploration licenses, taxation, environmental protection and repatriation of income and capital, which may adversely impact the Group's ability to carry out its activities. The jurisdictions in which the Group might operate in the future may have less developed legal systems than more established economies, which could result in risks such as (i) effective legal redress in the courts being more difficult to obtain, (ii) a higher degree of discretion on the part of governmental authorities, (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations.

Surestream Petroleum Limited

DIRECTORS' REPORT

Financial Risk

The Group's exposure to financial risks and the risk management policies that the Group has adopted are described in note 24 of the financial statements

GOING CONCERN

As part of their general review of the business, the directors examined a 14-month forward looking cash flow forecast of the Group, based on the most likely work programme, to be able to assess the required funding to continue in operational existence against the firm and contingent commitments. The Board noted that the successful closing of the recent convertible loan issue brought in adequate funding to see through the firm commitments until the end of 2012, however a minimum of US\$5 million is still required at the end of this year against the firm commitments for the following 10 months from January 2013. The directors have reasonable expectations that the Group will be able to identify a strategic investor and close a major capital raise before the end of this year, which will provide sufficient capital to enable the Group to fund all firm commitments and enable the Group to continue in operational existence for at least the next 12 months from the date of approval of this report, although the amount and timing of future equity fund-raising cannot be certain. For this reason, the directors continue to adopt the going concern basis in preparing the accounts.

DIVIDENDS

The directors are unable to recommend the payment of a dividend (2010 US \$Nil)

DIRECTORS

The following directors have held office during the year

Pierre Achach

Christopher N Pitman

Moustapha Niasse – resigned 28 August 2012

Jan A Nielsen

Ahmed Khelif

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements of the Group and the Company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and accounting estimates that are reasonable and prudent,
- c state whether they have been prepared in accordance with IFRS adopted by the EU,
- d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

Surestream Petroleum Limited

DIRECTORS' REPORT

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Surestream Petroleum Limited website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

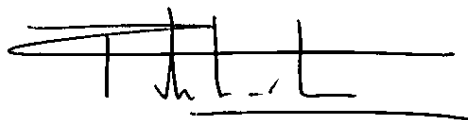
STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

AUDITOR

Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

On behalf of the Board,

A handwritten signature in black ink, appearing to be 'P. Achach', written over a horizontal line.

PIERRE ACHACH
Director

25 September 2012

Surestream Petroleum Limited

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURESTREAM PETROLEUM LIMITED

We have audited the group and parent company financial statements ("the financial statements") on pages 9 to 41. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement on pages 5 to 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 December 2011 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 3 of the financial statements concerning the Group's ability to continue as a going concern and the uncertainty surrounding the amount and timing of future fund-raising, on which the Group is dependent in order to continue operating as a going concern. This, along with the other matters explained in note 3 to the financial statements, indicates the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

Surestream Petroleum Limited

AUDITOR'S REPORT

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

Baker Tilly UK Audit LLP

PAUL WATTS (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

25 September 2012

Surestream Petroleum Limited

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	<i>Notes</i>	2011 US\$'000	2010 US\$'000
Operating expenses – pre-licensing costs	5	(1,368)	(807)
Administrative expenses	6	<u>(2,722)</u>	<u>(2,282)</u>
OPERATING LOSS		(4,090)	(3,089)
Finance income	8	<u>70</u>	<u>53</u>
LOSS BEFORE TAXATION		(4,020)	(3,036)
Taxation	9	<u>-</u>	<u>-</u>
LOSS FOR THE YEAR	21	<u>(4,020)</u>	<u>(3,036)</u>

The loss for the year arises from the Group's continuing operations

No separate statement of comprehensive income has been presented as all such gains and losses have been dealt with in the income statement

The notes on pages 16 to 41 are an integral part of these financial statements

Surestream Petroleum Limited

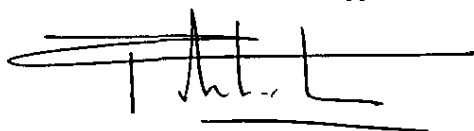
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

Company Registration No 5238607

	Notes	2011 US\$'000	2010 US\$'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	12	19,962	13,390
Property, plant and equipment	13	2,935	380
TOTAL NON-CURRENT ASSETS		22,897	13,770
CURRENT ASSETS			
Inventories	14	220	219
Other receivables	15	400	6,789
Cash and cash equivalents	16	3,236	12,633
TOTAL CURRENT ASSETS		3,856	19,641
TOTAL ASSETS		26,753	33,411
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18	17	17
Share premium	19	41,796	41,795
Share based payment reserve	20	4,151	4,141
Retained earnings	21	(21,394)	(17,374)
TOTAL EQUITY		24,570	28,579
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	2,183	4,832
TOTAL CURRENT LIABILITIES		2,183	4,832
TOTAL EQUITY AND LIABILITIES		26,753	33,411

The financial statements were approved and authorised for issue by the Board on 25 September 2012



PIERRE ACHACH
Director

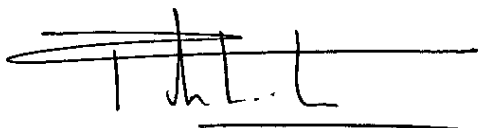
The notes on pages 16 to 41 are an integral part of these financial statements

Surestream Petroleum Limited
COMPANY STATEMENT OF FINANCIAL POSITION
31 December 2011

Company Registration No 5238607

	<i>Notes</i>	2011 US\$'000	2010 US\$'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	12	1,604	-
Property, plant and equipment	13	238	175
Investments	11	24,138	21,316
TOTAL NON-CURRENT ASSETS		25,980	21,491
CURRENT ASSETS			
Other receivables	15	317	205
Cash and cash equivalents	16	1,950	10,250
TOTAL CURRENT ASSETS		2,267	10,455
TOTAL ASSETS		28,247	31,946
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18	17	17
Share premium	19	41,796	41,795
Share based payment reserve	20	4,151	4,141
Retained earnings	21	(18,475)	(14,644)
TOTAL EQUITY		27,489	31,309
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	758	637
TOTAL CURRENT LIABILITIES		758	637
TOTAL EQUITY AND LIABILITIES		28,247	31,946

The financial statements were approved and authorised for issue by the Board on 25 September 2012



PIERRE ACHACH
Director

The notes on pages 16 to 41 are an integral part of these financial statements

Surestream Petroleum Limited
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011

	<i>Notes</i>	Attributable to owners of the parent				
		Share capital	Share premium	Share based payment reserve	Retained earnings	Total equity
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
BALANCE AT 1 JANUARY 2010		16	30,726	3,838	(14,338)	20,242
<i>Comprehensive income</i>						
Loss for the year		-	-	-	(3,036)	(3,036)
Total comprehensive income		-	-	-	(3,036)	(3,036)
<i>Transactions with owners</i>						
Shared based payment charge	20	-	-	303	-	303
Proceeds of shares issues (net of costs)	18,19	1	11,069	-	-	11,070
Total transactions with owners		1	11,069	303	-	11,373
BALANCE AT 31 DECEMBER 2010		17	41,795	4,141	(17,374)	28,579
<i>Comprehensive income</i>						
Loss for the year		-	-	-	(4,020)	(4,020)
Total comprehensive income		-	-	-	(4,020)	(4,020)
<i>Transactions with owners</i>						
Shared based payment charge	20	-	-	10	-	10
Proceeds of shares issues (net of costs)	18,19	-	1	-	-	1
Total transactions with owners		-	1	10	-	11
BALANCE AT 31 DECEMBER 2011		17	41,796	4,151	(21,394)	24,570

The notes on pages 16 to 41 are an integral part of these financial statements

Surestream Petroleum Limited
COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011

	<i>Notes</i>	Share capital	Share premium	Share based payment reserve	Retained earnings	Total equity
		US\$'000	US\$ 000	US\$'000	US\$'000	US\$'000
BALANCE AT 1 JANUARY 2010		16	30,726	3,838	(11,810)	22,770
<i>Comprehensive income</i>						
Loss for the year		-	-	-	(2,834)	(2,834)
Total comprehensive income		-	-	-	(2,834)	(2,834)
<i>Transactions with owners</i>						
Shared based payment charge	20	-	-	303	-	303
Proceeds of shares issues (net of costs)	18,19	1	11,069	-	-	11,070
Total transactions with owners		<u>1</u>	<u>11,069</u>	<u>303</u>	<u>-</u>	<u>11,373</u>
BALANCE AT 31 DECEMBER 2010		<u>17</u>	<u>41,795</u>	<u>4,141</u>	<u>(14,644)</u>	<u>31,309</u>
<i>Comprehensive income</i>						
Loss for the year		-	-	-	(3,831)	(3,831)
Total comprehensive income		-	-	-	(3,831)	(3,831)
<i>Transactions with owners</i>						
Shared based payment charge	20	-	-	10	-	10
Proceeds of shares issues (net of costs)	18,19	-	1	-	-	1
Total transactions with owners		<u>-</u>	<u>1</u>	<u>10</u>	<u>-</u>	<u>11</u>
BALANCE AT 31 DECEMBER 2011		<u>17</u>	<u>41,796</u>	<u>4,151</u>	<u>(18,475)</u>	<u>27,489</u>

The notes on pages 16 to 41 are an integral part of these financial statements

Surestream Petroleum Limited
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2011

	<i>Notes</i>	2011 US\$'000	2010 US\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	22	<u>(3,899)</u>	<u>(2,271)</u>
Net cash used in operating activities		(3,899)	(2,271)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	13	(2,869)	(183)
Purchases of intangible assets	12	(6,403)	(2,020)
Proceeds from farm-out disposal	12	3,655	3,653
Proceeds from sale of property, plant and equipment	13	48	33
Interest received	8	<u>70</u>	<u>53</u>
Net cash (outflow)/inflow from investing activities		(5,499)	1,536
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	18, 19	1	11,100
Issue costs	18, 19	<u>-</u>	<u>(30)</u>
Net cash generated from financing activities		1	11,070
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<u>(9,397)</u>	<u>10,335</u>
Cash and cash equivalents at beginning of year		<u>12,633</u>	<u>2,298</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	<u>3,236</u>	<u>12,633</u>

The notes on pages 16 to 41 are an integral part of these financial statements

Surestream Petroleum Limited
COMPANY STATEMENT OF CASH FLOWS
For the year ended 31 December 2011

	<i>Notes</i>	2011 US\$'000	2010 US\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	22	<u>(3,784)</u>	<u>(2,523)</u>
Net cash used in operating activities		(3,784)	(2,523)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net advances (to)/from subsidiaries	11	(2,822)	386
Purchases of intangible assets	12	(1,604)	-
Purchases of property, plant and equipment	13	(209)	(183)
Proceeds from sale of property, plant and equipment	13	48	33
Interest received	8	<u>70</u>	<u>53</u>
Net cash (used in)/generated from investing activities		(4,517)	289
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	18, 19	1	11,100
Issue costs	18, 19	<u>-</u>	<u>(30)</u>
Net cash generated from financing activities		1	11,070
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<u>(8,300)</u>	<u>8,836</u>
Cash and cash equivalents at beginning of year		<u>10,250</u>	<u>1,414</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	<u>1,950</u>	<u>10,250</u>

The notes on pages 16 to 41 are an integral part of these financial statements

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1 GENERAL INFORMATION

Surestream Petroleum Limited and its subsidiaries ("the Group") conduct oil and gas exploration in the Democratic Republic of Congo, Burundi and Malawi. The Company is incorporated and domiciled in England and Wales.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidation financial statements are set out below. These policies have been consistently applied to all the years presented.

2.1 BASIS OF PREPARATION

The consolidated financial statements of Surestream Petroleum Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and IFRIC Interpretations.

The consolidated financial statements have been prepared under the historical cost convention. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the consolidated financial statements are discussed in note 3.

2.1.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

At the date of authorization of these financial statements, the following standards, amendments to existing standards and interpretations relevant to the Group were in issue but not yet effective:

- IFRS 1 - First-time Adoption of International Financial Reporting Standards (amendments)
- IFRS 7 - Financial Instruments Disclosures (amendments)
- IFRS 9 - Financial Instruments - Classification and Measurement
- IFRS 10 - Consolidated Financial Statements
- IFRS 11 - Joint Arrangements
- IFRS 12 - Disclosure of Interests in Other Entities
- IFRS 13 - Fair Value Measurement
- IAS 1 - Presentation of Financial Statements (amendments)
- IAS 24 - Related Party Disclosures - revision
- IAS 27 - describing the transition for amendments resulting from IAS 27 (2008)
- IAS 32 - Financial Instruments - Presentation — Amendments relating to classification of rights issues
- IFRIC 19 - Extinguishing liabilities with equity instruments
- IFRIC 20 - Stripping costs in the production phase of a surface mine

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements.

2.2 BUSINESS COMBINATIONS

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The consolidated financial statements incorporate those of Surestream Petroleum Limited and its subsidiary undertakings for the year using the acquisition method of accounting. The results of subsidiaries formed or acquired during the year are incorporated from the date that Surestream Petroleum Limited obtained control. Acquisition costs are written-off to the income statement as incurred.

Transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company's investments are in three wholly owned subsidiaries,

- 1 Surestream RDC Sarl, a company incorporated in the Democratic Republic of Congo, whose principal activity is oil exploration
- 2 Surestream Petroleum (Burundi) Limited, a company incorporated in the British Virgin Islands, whose principal activity is oil exploration
- 3 Surestream Technical Services Limited, a company incorporated in the British Virgin Islands, whose principal activity is provision of services for oil exploration

2.3 INVESTMENTS

Investments in subsidiaries are initially recorded at cost in the Company statement of financial position. Amounts advanced to subsidiaries are capitalised as part of the investment cost when they form part of the long-term net investment in the subsidiary. Investments are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in the income statement in the period they occur.

2.4 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

2.5 FOREIGN CURRENCY TRANSLATION

a) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the parent company and subsidiaries is United States dollars. The consolidated statements are presented in United States dollars, which is the Group's presentational currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the 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.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

The United States Dollar Pounds Sterling exchange rate at 31 December 2011 was 0.6435 (2010: 0.6387). The average rate during the year was 0.6211 (2010: 0.6479).

2.6 PROPERTY, PLANT AND EQUIPMENT

a) Capitalisation

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows -

Plant and machinery	33⅓% per annum
Furniture, fixtures and equipment	33⅓% per annum
Computer software	33⅓% per annum
Motor vehicles	33⅓% per annum

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period

To the extent that a tangible asset is consumed in the development of an intangible asset, the amount reflecting the consumption is capitalised as part of the cost of the related intangible asset

b) Impairment

At each reporting date, the carrying amounts of property, plant and equipment are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

2.7 INTANGIBLE EXPLORATION AND EVALUATION ASSETS

a) Capitalisation

Expenditure which is directly attributable to the exploration and evaluation of oil and gas resources and can be reliably measured is capitalised as intangible exploration and evaluation assets. Capitalised expenditure includes overheads that are directly attributable to exploration and evaluation activities.

Capitalised expenditure is allocated to cash generating units on the basis of geographic area. If an exploration project is successful and it is brought into production, the related expenditures are transferred to property, plant and equipment as an oil and gas asset and depleted on a unit of production basis from the date of commencement of commercial production.

Whenever a project is considered no longer viable the associated exploration expenditure is written off to the income statement.

Expenditure incurred before the Group has obtained the legal rights to explore a specific area ("pre-licensing costs") are expensed in the year that they are incurred.

b) Impairment

Exploration and evaluation assets are tested for impairment when reclassified to property, plant and equipment or whenever facts and circumstances indicate impairment. An impairment review is undertaken when indicators of impairment arise but typically when one of the following circumstances applies:

- unexpected geological occurrences or negative seismic or drilling results render the resource uneconomic
- title to the asset is compromised
- variations in commodity prices or exchange rates that render the project uneconomic
- the Group determines that it no longer wishes to continue to evaluate or develop the property

An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amounts exceed their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. Any impairment loss is immediately recognised within the income statement.

The Group's intangible exploration and evaluation assets are currently held in the six blocks which are classified as separate cash generating units ("CGUs"). Impairment tests are carried out separately on each CGU.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 INVENTORY

Inventory is stated at the lower of cost and net realisable value. Cost comprises direct material cost and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value is determined on the basis of estimated selling price in the ordinary course of business less any costs likely to be incurred to completion and disposal.

Inventories are reviewed on a regular basis and where appropriate a provision against out of date material or fuel is made.

2.9 JOINT VENTURES AND PSAs

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers. The Group is engaged in oil and gas exploration through unincorporated joint ventures called Production Sharing Agreements (PSAs).

Since the Group is still in the exploration phase of its operations and has not yet made any commercial discovery, it accounts for its share of assets, liabilities, income and expenditure under PSAs in which it holds an interest, classified under the appropriate headings in the statement of financial position and income statement.

2.10 FINANCIAL ASSETS

The Group classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The Group's loans and receivables comprise 'other receivables' and 'cash and cash equivalents' included within current assets in the statement of financial position.

2.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand and deposits held at call with banks with maturities of less than 3 months.

2.12 SHARE CAPITAL

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

2.13 TRADE PAYABLES

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 TAXATION

The tax expense represents the sum of the current tax expense and deferred tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from accounting 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 Group's liability for current tax is measured using tax rates that have been enacted or substantively enacted by the reporting date.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is charged or credited in profit or loss, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity, or items charged or credited directly to other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax relates to income tax levied by the same tax authorities on either

- the same taxable entity or,
- different taxable entities which intend to settle current tax assets and liabilities on a net basis or to realise and settle them simultaneously in each future period when the significant deferred tax assets and liabilities are expected to be realised or settled.

2.15 OPERATING LEASES

Payments made under operating leases in respect of oil and gas exploration activities are capitalised as intangible exploration and evaluation assets. Payments made under operating leases in respect of corporate and administrative activities are charged to the income statement on a straight-line basis over the period of the lease.

2.16 SHARE-BASED PAYMENTS

The Group issues equity-settled share-based payments to certain employees in the form of options to acquire ordinary shares in the Company. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Where the Group issues equity instruments in consideration for services provided by third parties (other than employees) that are required to be settled in an equity-settled share based payment transaction, those services are recognised as an expense (unless they qualify for recognition as an asset) at the fair value of the services received, unless that fair value cannot be estimated reliably in which case the expense (or asset) is recognised by reference to the fair value of the equity instruments granted

Where the equity instruments granted vest immediately (e.g. the issue of shares as consideration for services received), it is presumed that the services have been received and therefore the Group recognises the expense in full with a corresponding increase in equity at the date of transfer of the equity instrument. Where the equity instruments do not vest until the counterparty completes a specified period of service, that service and the corresponding increase in equity is accounted for over the vesting period

2.17 PENSION COSTS

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 GOING CONCERN

An assessment of going concern is made by the directors at the date the directors approve the annual financial statements, taking into account the relevant facts and circumstances at that date including

- Review of profit and cashflow forecasts for at least one year from approval of these financial statements
- Availability and timing of financing
- Financial and operational risks

As part of their general review of the business, the Directors examined a 14-month forward looking cash flow forecast of the Group, based on the most likely work programme, to be able to assess the required funding to continue in operational existence against the firm and contingent commitments. The Board noted that the successful closing of the recent convertible loan issue brought in adequate funding to see through the firm commitments until the end of 2012, however a minimum of US\$5 million is still required at the end of this year against the firm commitments for the following 10 months from January 2013. The directors have reasonable expectations that the Group will be able to identify a strategic investor and close a major capital raise before the end of this year, which will provide sufficient capital to enable the Group to fund all firm commitments and enable the Group to continue in operational existence for at least the next 12 months from the date of approval of this report, although the amount and timing of future equity fund-raising cannot be certain. For this reason, the directors continue to adopt the going concern basis in preparing the accounts

3.2 RECOVERABILITY OF INTANGIBLE EXPLORATION AND EVALUATION ASSETS

Determining whether an exploration and evaluation asset is impaired requires an assessment of whether there are any indicators of impairment, including by reference to specific impairment indicators prescribed in IFRS 6 Exploration for and Evaluation of Mineral Resources. If there is any indication of potential impairment, an impairment test is required based on the value in use of the asset. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of exploration and evaluation assets at the reporting date was US\$20.0 million (2010: US\$13.4 million) and no impairment loss was recognised in the year (2010: nil)

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4 SEGMENT INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance

Information is reported to the Group's chief operating decision maker for the purpose of resource allocation and assessment of segmental performance specifically focussed on geographical segment. As is common in the oil and gas sector, assets and licenses and associated costs are maintained in separate ledgers based on geographical location

The Group's reportable segments under IFRS 8 are therefore as follows,

- Democratic Republic of Congo
- Burundi
- Malawi

Segment revenues and results

The following is an analysis of the Group's results from continuing operations by reportable segment. No revenue had been generated by the Group since inception

Segment results	2011 US\$'000	2010 US\$'000
Democratic Republic of Congo	(137)	(150)
Burundi	(40)	(53)
Malawi	(628)	-
Expenses allocated to segments	<u>(805)</u>	<u>(203)</u>
Administrative expenses – central overheads	(2,528)	(2,080)
Pre-licensing costs not allocated to existing segments	(757)	(806)
Finance income	<u>70</u>	<u>53</u>
Loss for the year	<u>(4,020)</u>	<u>(3,036)</u>

Segment results represent the result of each segment without allocation of central administrative costs, investment revenues, finance costs and income tax. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment reporting

Segment assets and liabilities

Segment assets	2011 US\$'000	2010 US\$'000
Democratic Republic of Congo	15,032	19,475
Burundi	7,611	3,306
Malawi	1,677	-
Total segment assets	<u>24,320</u>	<u>22,781</u>
Unallocated	<u>2,433</u>	<u>10,630</u>
Consolidated assets	<u>26,753</u>	<u>33,411</u>

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

4 SEGMENT INFORMATION (continued)

	2011 US\$'000	2010 US\$'000
Segment liabilities		
Democratic Republic of Congo	(1,123)	(4,134)
Burundi	(301)	(61)
Malawi	(5)	-
Total segment liabilities	<u>(1,429)</u>	<u>(4,195)</u>
Unallocated	<u>(754)</u>	<u>(637)</u>
Consolidated liabilities	<u>(2,183)</u>	<u>(4,832)</u>

Other segment information

No depreciation or amortisation has been charged to the income statement within the segments Depreciation on property, plant and equipment not used in exploration activities is charged at a head office level

	2011 US\$'000	2010 US\$'000
Additions to non-current assets		
Democratic Republic of Congo	3,313	225
Burundi	4,315	1 464
Malawi	1,631	-
Unallocated	<u>182</u>	<u>183</u>
	<u>9,441</u>	<u>1,872</u>

As the Group's segments are reported to the chief decision maker by segment and the Group is not revenue generating, no further segmental information is deemed necessary

5 OPERATING EXPENSES

	2011 US\$'000	2010 US\$'000
Pre-licensing costs	<u>1,368</u>	<u>807</u>

6 ADMINISTRATIVE EXPENSES AND AUDITOR'S REMUNERATION

	2011 US\$'000	2010 US\$'000
Depreciation and amounts written off property, plant and equipment Charge for the period – owned assets	106	80
Employee salary and benefits expense	1,879	1,459
Foreign exchange losses	11	37
Auditor's remuneration – audit services	65	97
Auditor's remuneration – tax services	65	29
Operating lease rentals – office rent	375	345
Contractors	255	605
Gain on disposal of fixed assets	(8)	(33)
Other costs and recharges	<u>(26)</u>	<u>(336)</u>
	<u>2,722</u>	<u>2,282</u>

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

7 EMPLOYEE BENEFIT EXPENSE AND KEY MANAGEMENT EMPLOYMENT COSTS

	2011 No	2010 No
The average monthly number of persons (including directors) employed by the Group during the year was		
Office and management	10	10
Technical	6	5
Field operations	26	27
	<u>42</u>	<u>42</u>
	2011	2010
Staff costs for the above persons	US\$'000	US\$'000
Wages and salaries (including all benefits except pension)	4,196	3,446
Pension costs	282	-
Social security costs	352	279
Share-based payment (employee options)	10	303
	<u>4,840</u>	<u>4,028</u>

The above costs include US\$2,961,238 (2010 US\$2,569,309) of wages, salaries and social security costs which were capitalised as additions to intangible exploration and evaluation assets in the year

KEY MANAGEMENT EMPLOYEES

	2011 US\$'000	2010 US\$'000
In respect of the key management employees (excluding directors) of Surestream Petroleum Limited		
Emoluments and other benefits	738	540
Pension costs	59	-
Share-based payment (employee options)	1	26
	<u>798</u>	<u>566</u>

DIRECTORS

	2011 US\$'000	2010 US\$'000
In respect of the directors of Surestream Petroleum Limited		
Emoluments and other benefits	1,071	912
Pension costs	97	-
Sums paid to third parties for the directors' services	184	161
Share-based payment (employee options)	9	278
	<u>1,361</u>	<u>1,351</u>

	2011 US\$'000	2010 US\$'000
Directors emoluments disclosed above include the following payments in respect of the highest paid director		
Emoluments and other benefits	751	631
Pension	97	-
Share-based payment (employee options)	3	93
	<u>851</u>	<u>724</u>

Included in the above are fees payable in respect of directors' services provided in the year to companies controlled or related to directors, as set out in note 28

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

8 FINANCE INCOME

	2011 US\$'000	2010 US\$'000
Interest income on short term deposits	<u>70</u>	<u>53</u>

9 TAXATION

	2011 US\$'000	2010 US\$'000
Current tax		
UK corporation tax on loss for the year	-	-
Factors affecting tax charge for the year	2011 US\$'000	2010 US\$'000
The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are explained below		
Loss before tax	<u>(4,020)</u>	<u>(3,036)</u>
Loss multiplied by standard rate of corporation tax in the UK	(1,065)	(850)
Effects of		
Expenses not deductible for tax purposes	42	111
Depreciation (lower than)/in excess of capital allowances	(26)	22
Tax losses not recognised in deferred tax	<u>1,049</u>	<u>717</u>
Tax charge for year	<u>-</u>	<u>-</u>

The Group has approximately US\$12.7 million of tax losses carried forward (2010: US\$8.8 million). A deferred tax asset of US\$3.2 million at 25% (2010: US\$2.5 million) in respect of these losses has not been recognised due to uncertainty as to the recoverability of these losses.

10 LOSS OF THE PARENT COMPANY

The parent Company's loss for the year to 31 December 2011 amounted to US\$3,831,380 (2010: US\$2,833,928). The Company has taken advantage of the exemption available under the Companies Act from publishing a Company income statement.

11 INVESTMENTS

	US\$'000
COMPANY	
Cost	
At 1 January 2010	21,702
Advances to subsidiaries	3,268
Recovery from farm-out agreements	<u>(3,654)</u>
31 December 2010	<u>21,316</u>
Advances to subsidiaries	6,339
Recovery from farm-out agreements	<u>(3,517)</u>
At 31 December 2011	<u>24,138</u>

Surestream Petroleum Limited

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11 INVESTMENTS (continued)

The investments are in three wholly owned subsidiaries

1 Surestream RDC Sarl, a Company incorporated in the Democratic Republic of Congo, whose principal activity is oil exploration. The cost of investment includes US\$22,727 relating to shares in Surestream RDC Sarl

2 Surestream Petroleum (Burundi) Limited, a Company incorporated in the British Virgin Islands, whose principal activity is oil exploration. The cost of investment includes US\$50,000 relating to shares in Surestream Petroleum (Burundi) Limited

3 Surestream Technical Services Limited, a Company incorporated in the British Virgin Islands, whose principal activity is oil exploration. The cost of investment includes US\$50,000 relating to shares in Surestream Technical Services Limited

12 INTANGIBLE ASSETS

GROUP	Oil and gas exploration and evaluation assets US\$'000
At 1 January 2010	18,712
Additions	1,986
Disposals through farm-out agreements	(7,308)
At 31 December 2010	13,390
Additions	6,572
At 31 December 2011	19,962
COMPANY	Oil and gas exploration and evaluation assets US\$'000
At 1 January 2010 and 31 December 2010	-
Additions	1,604
At 31 December 2011	1,604

Disposal from ENI Farm-out Agreement

The DRC subsidiary of the Group, Surestream RDC Sarl, signed a farm-out agreement with ENI Oil Holdings BV ("ENI") on 9 August 2010 for the Ndunda block. Surestream RDC Sarl ("Surestream") reduced its participating interest in the block from 85% to 30%, by assigning 55% to ENI. In return ENI agreed to reimburse Surestream for its share of the back costs until 1 February 2010, in two payments, the first payment of US\$3.65million in August 2010 and the second of US\$3.65million conditional upon Surestream receiving the grant of a 6-month extension from the DRC Government to the first exploration period of the Ndunda PSA, which was due to expire under normal conditions on 1 February 2011. Both of the payments received from ENI were treated as a disposal of Surestream's interest in the intangible asset. According to the same agreement, ENI further committed to carrying Surestream for the first gross US\$9.3million of the 2010 work programme followed by an exploration well and either one of a seismic survey up to a total cost of US\$8.5million or a second well during the second 5-year exploration period.

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12 INTANGIBLE ASSETS (continued)

Impairment test for exploration and evaluation assets

During the year a review was undertaken of the carrying value of exploration and evaluation assets to determine if there were any indications of triggers that may have led to these assets suffering an impairment loss. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist, for example, based on the results of drilling and seismic activity and a review of political risk. The cash generating units (CGUs) on which impairment is tested are each of the six petroleum exploration licences. No indications of impairment triggers were noted.

13 PROPERTY, PLANT AND EQUIPMENT

GROUP	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Computer software	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost					
At 1 January 2010	1,183	133	181	130	1,627
Additions	-	23	107	53	183
Disposals	-	(2)	(89)	-	(91)
At 31 December 2010	1,183	154	199	183	1,719
Additions	2,660	80	129	-	2,869
Disposals	-	-	(140)	-	(140)
At 31 December 2011	3,843	234	188	183	4,448
Depreciation					
At 1 January 2010	681	99	169	104	1,053
Charged/capitalised in the year*	297	32	24	24	377
Disposals	-	(2)	(89)	-	(91)
At 31 December 2010	978	129	104	128	1,339
Charged/capitalised in the year*	168	26	50	30	274
Disposals	-	-	(100)	-	(100)
At 31 December 2011	1,146	155	54	158	1,513
Net book value					
At 31 December 2011	2,697	79	134	25	2,935
At 31 December 2010	205	25	95	55	380
At 1 January 2010	502	34	12	26	574

* Depreciation of US\$168,998 (2010: US\$297,082) in relation to plant and machinery used in exploration activities has been capitalised as part of the cost of additions to intangible assets in the year.

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

13 PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY	Furniture, fixtures and equipment US\$'000	Motor vehicles US\$'000	Computer software US\$'000	Total US\$'000
Cost				
At 1 January 2010	133	181	130	444
Additions	23	107	53	183
Disposals	(2)	(89)	-	(91)
At 31 December 2010	154	199	183	536
Additions	80	129	-	209
Disposals	-	(140)	-	(140)
At 31 December 2011	234	188	183	605
Depreciation				
At 1 January 2010	99	169	104	372
Charged in the year	32	24	24	80
Disposals	(2)	(89)	-	(91)
At 31 December 2010	129	104	128	361
Charged in the year	26	50	30	106
Disposals	-	(100)	-	(100)
At 31 December 2011	155	54	158	367
Net book value				
At 31 December 2011	79	134	25	238
At 31 December 2010	25	95	55	175
At 1 January 2010	34	12	26	72

14 INVENTORIES

GROUP	2011 US\$'000	2010 US\$'000
Material and equipment	220	219

All inventories are held for oil and gas exploration. When the inventory is issued to operations the cost is capitalised. Inventories with a cost of US\$25,346 (2010 US\$856,136) have been capitalised as part of the cost of additions to intangible exploration and evaluation assets in the year.

In 2011 the Group has provided no new provisions against components which are not required and cannot be sold (2010 US\$67,600).

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

15 OTHER RECEIVABLES

	2011 US\$'000	2010 US\$'000
GROUP		
Due within one year		
Receivables from PSA partners	13	6,517
Receivables from related parties	18	80
Prepayments	161	106
Receivables in respect of other tax and social security	101	-
Other receivables	107	86
	<u>400</u>	<u>6,789</u>

The carrying amount of receivables is deemed equal to their fair value due to their short term nature

	2011 US\$'000	2010 US\$'000
COMPANY		
Receivables from related parties	18	80
Prepayments	141	72
Receivables in respect of other tax and social security	92	-
Other receivables	66	53
	<u>317</u>	<u>205</u>

The carrying amount of receivables is deemed equal to their fair value due to their short term nature

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable. The Group does not hold any collateral as security.

The carrying amounts of other receivables (excluding amounts held in USD) are denominated in the following currencies:

	2011 US\$'000	2010 US\$'000
GROUP		
United Arab Emirates Dirham	6	10
Euro	10	-
UK Pound	138	84
	<u>154</u>	<u>94</u>
COMPANY		
United Arab Emirates Dirham	6	10
UK Pound	129	84
	<u>135</u>	<u>94</u>

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

16 CASH AND CASH EQUIVALENTS

	2011 US\$'000	2010 US\$'000
GROUP		
Cash at bank and on hand	<u>3,236</u>	<u>12,633</u>
COMPANY		
Cash at bank and on hand	<u>1,950</u>	<u>10,250</u>

All cash and cash equivalents are at floating interest rates

The directors consider that the carrying amount of cash and cash equivalents approximates their fair value

At 31 December 2011, a total of US\$Nil (2010 US\$625,674) was pledged as security in support of bank guarantees to suppliers in the normal course of business

All of the Group's cash and cash equivalents at 31 December 2011 are held in United States Dollars except for US\$103,403 and US\$275,607 (2010 US\$122,000 and US\$199,000) held in United Arab Emirates Dirhams and UK Pounds respectively

All of the Company's cash and cash equivalents at 31 December 2011 are held in United States Dollars except for US\$103,403 and US\$275,607 (2010 US\$122,000 and US\$199,000) held in United Arab Emirates Dirhams and UK Pounds respectively

17 TRADE AND OTHER PAYABLES

	2011 US\$'000	2010 US\$'000
GROUP		
Trade payables	1,498	2,025
Other tax and social security	188	133
Other payables	7	37
Accruals	<u>490</u>	<u>2,637</u>
	<u>2,183</u>	<u>4,832</u>
COMPANY		
Trade payables	483	412
Other tax and social security	162	104
Other payables	1	37
Accruals	<u>112</u>	<u>84</u>
	<u>758</u>	<u>637</u>

The carrying amounts of trade and other payables are deemed equal to their fair value due to their short term nature

The Group has no undrawn borrowing facilities

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

17 TRADE AND OTHER PAYABLES (continued)

The carrying amounts of trade and other payables (excluding USD) are denominated in the following currencies

GROUP	2011 US\$'000	2010 US\$'000
United Arab Emirates Dirham	-	3
Euro	92	57
UK Pound	581	498
	<u>673</u>	<u>558</u>

COMPANY	2011 US\$'000	2010 US\$'000
United Arab Emirates Dirham	-	3
Euro	69	45
UK Pound	486	472
	<u>555</u>	<u>520</u>

18 SHARE CAPITAL

GROUP AND COMPANY	2011 US\$'000	2010 US\$'000
Authorised		
107,600,000 (2010 107,600,000) ordinary shares of 0.01p each	20	20
13,000,000 (2010 13,000,000) preference shares of 0.01p each	3	3
	<u>23</u>	<u>23</u>
Allotted, issued and fully paid		
86,528,991 (2010 86,469,367) ordinary shares of 0.01p each	16	16
6,000,000 (2010 6,000,000) preference shares of 0.01p each	1	1
	<u>17</u>	<u>17</u>

Movements in share capital

In October 2011, 59,624 Class C warrants were exercised and 59,624 ordinary shares were issued for a total consideration of US\$596. The nominal value of the ordinary shares issued was US\$10.

Preference share capital

The preference shares vote together with the ordinary shares on an as-converted basis, and not as a separate class.

The preference shares do not confer on the holders any further rights to participate in the profits or assets of the Company that are superior to the rights of the ordinary shares.

In the event of any liquidation, dissolution or winding up of the Company, the proceeds first are paid to the holders of the preference shares in an amount equal to the subscription price originally paid with respect to such preference shares, plus any accrued dividends thereon. Thereafter, the proceeds which remain after the payment to the preference shares as described above, are paid to the holders of the ordinary shares in full.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

18 SHARE CAPITAL (continued)

Convertible securities

On 4 July 2012, the Board decided and on 9 July 2012 it was announced to the shareholders that the Group was undertaking a rights issue in the form of short term loans convertible to shares. The issue was fully subscribed and a total of US\$5 million was raised in the form of short-term interest bearing convertible loans from the current shareholders. The issue took place in two rounds.

In round 1, the loans were offered to all shareholders in proportion to their shareholding with an annual interest rate of 10% and an option to convert the loan plus accrued interest to ordinary shares at any time at the lower price of US\$2 per share or the issue price of ordinary shares in the major funding that is contemplated to take place during the last quarter of 2012.

In round 2, the loans not taken up in round 1 were re-offered to the subscribers of round 1 with an annual interest rate of 10% and an option to convert the loan plus accrued interest to ordinary shares at any time at the lower price of US\$0.70 per share or the issue price of ordinary shares in the major funding that is contemplated to take place during the last quarter of 2012.

For both of the rounds, the holders of the loans were also given the option to request repayment of the loan plus accrued interest after the successful closing of the major funding instead of conversion to ordinary shares. In any case the loans will either be repaid by 31 December 2012 or converted to ordinary shares.

Warrants

The Company has issued warrants over shares as follows:

Class C warrant

In respect of each Class C warrant the investor can purchase 1 ordinary share at a price of US\$0.01 per share. Such rights could be exercised at any time during the period 1 November 2009 to 31 October 2011 provided the Company had not by such date conducted an initial public offering of its shares, or a sale of substantially all its assets for consideration in cash or listed shares or some other event resulting in the holders of all or substantially all of the ordinary shares of the Company receiving cash or listed shares in place of those ordinary shares. During 2011, 59,624 Class C Warrants were exercised and 21,984 Class C Warrants expired.

At 31 December 2011, no Class C warrants were outstanding (2010: 81,608).

Class D warrant

The investor can purchase one preference share in the Company at a price of US\$1.50 per share in respect of each Class D warrant. The rights may be exercised at any time until 20 December 2012. No Class D warrants have been exercised.

At 31 December 2011, 1,000,000 Class D warrants were outstanding (2010: 1,000,000).

19 SHARE PREMIUM ACCOUNT

	2011 US\$'000	2010 US\$'000
GROUP AND COMPANY		
At 1 January	41,795	30,726
Premium on issue of new shares	1	11,099
Share issue costs	-	(30)
At 31 December	<u>41,796</u>	<u>41,795</u>

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

20 SHARE BASED PAYMENT RESERVE

	2011 US\$'000	2010 US\$'000
GROUP AND COMPANY		
At 1 January	4,141	3,838
Share based payment charge	10	303
At 31 December	<u>4,151</u>	<u>4,141</u>

21 RETAINED EARNINGS

	2011 US\$'000	2010 US\$'000
GROUP		
At 1 January	(17,374)	(14,338)
Loss for the year	(4,020)	(3,036)
At 31 December	<u>(21,394)</u>	<u>(17,374)</u>
COMPANY		
At 1 January	(14,644)	(11,810)
Loss for the year	(3,831)	(2,834)
At 31 December	<u>(18,475)</u>	<u>(14,644)</u>

22 CASH FLOWS FROM OPERATING ACTIVITIES

	2011 US\$'000	2010 US\$'000
GROUP		
Loss before taxation	(4,020)	(3,036)
Adjustments for		
Finance income	(70)	(53)
Depreciation	106	80
Share based payments	10	303
Profit on disposal of property, plant and equipment	(8)	(33)
(Increase)/decrease in inventories	1	162
(Increase) in receivables	(115)	(26)
Increase in payables	197	332
CASH USED IN OPERATIONS	<u>(3,899)</u>	<u>(2,271)</u>
COMPANY		
Loss before taxation	(3,831)	(2,834)
Adjustments for		
Finance income	(70)	(53)
Depreciation	106	80
Share based payments	10	303
Profit on disposal of property, plant and equipment	(8)	(33)
(Increase) in receivables	(112)	(93)
Increase in payables	121	107
CASH USED IN OPERATIONS	<u>(3,784)</u>	<u>(2,523)</u>

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

23 SHARE BASED PAYMENT

Options

The Company adopted the Surestream Petroleum Senior Executive Share Option Scheme (the "scheme") on 11 March 2008. The objective of the scheme is to develop the interest of directors, officers and key employees of the Group in the growth and development of the Group by providing them with the opportunity to acquire a shareholding in the Company and to assist the Company in retaining and attracting executives with experience and ability. The Company's Board of Directors administers the scheme, which is unapproved for HM Revenue & Customs purposes.

The number of ordinary shares which may be issued under the scheme is limited so that not more than 5% of the issued ordinary share capital of the Company may, in aggregate, be issued or issuable under the scheme and any other employee share plan operated by the Company.

The Company did not grant any options during the year.

Further details of the share option grants are as follows:

	No of options	2011 Weighted average exercise price US\$	No of options	2010 Weighted average exercise price US\$
Outstanding at the start of year	3,632,000	0.46	3,632,000	0.46
Granted	-	-	-	-
Outstanding at the year end	<u>3,632,000</u>	<u>0.46</u>	<u>3,632,000</u>	<u>0.46</u>
Exercisable at the year end	<u>3,632,000</u>	<u>0.46</u>	<u>3,478,503</u>	<u>0.45</u>

No options were forfeited or exercised during 2011 (2010: nil).

	At 1 January 2011	Granted during the year	At 31 December 2011
The options were held by the following:			
Directors	3,432,000	-	3,432,000
Other management and staff	200,000	-	200,000
Total	<u>3,632,000</u>	<u>-</u>	<u>3,632,000</u>

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	Exercise price per share	No. of options	
Expiry date		2011	2010
11 March 2013	US\$0.70	2,379,200	2,379,200
20 November 2014	US\$0.01	1,252,800	1,252,800
		<u>3,632,000</u>	<u>3,632,000</u>

	2011 US\$'000	2010 US\$'000
Expense arising from share option grants	<u>10</u>	<u>303</u>

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

23 SHARE BASED PAYMENT (continued)

The estimated fair value of each share option granted under the scheme was calculated according to the requirements of IFRS 2 Share-based Payments, by applying a Black-Scholes option pricing model. The inputs into the Black Scholes model were as follows:

Share price at date of grant	US\$0.842
Exercise price	US\$0.01
Expected volatility	94%
Expected life	5 years
Risk free rate	1.39%
Expected dividends	Nil

The volatility % has been calculated using an average of a peer Group of listed companies. For the purpose of option valuation it has been assumed that no dividends will be payable.

24 FINANCIAL INSTRUMENTS

GROUP

The Group's activities expose it to a variety of financial risks, including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Capital risk management

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

The Group's capital comprises of cash and equity attributable to owners of the parent (share capital, share premium, share based payment reserve and retained earnings). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

Consistent with others in the industry, the Group plans to monitor capital on the basis of the gearing ratio. The gearing ratio is calculated as net debt divided by total capital. This ratio is not currently applicable as the Group does not have any borrowings. The Group has been financed by the issue of shares.

Categories of financial instrument

	Loans and receivables	
	2011 US\$'000	2010 US\$'000
Assets as per statement of financial position		
Other receivables (excluding prepayments)	239	3,028
Cash and cash equivalents	3,236	12,633
	<u>3,475</u>	<u>15,661</u>
	Liabilities at amortised cost	
	2011 US\$'000	2010 US\$'000
Liabilities as per statement of financial position		
Trade and other payables (excluding statutory liabilities)	<u>1,995</u>	<u>4,699</u>

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

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24 FINANCIAL INSTRUMENTS (continued)

Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, with respect to the UK pound, the Euro and the United Arab Emirate Dirham. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Currencies are purchased at the prevailing exchange rate on the day the foreign currency is required. The Company funds are not switched between currencies for speculative reasons unless the directors request this due to their expectations of foreign exchange rate movements. The Group does not currently hedge its cash flows as the directors do not believe this to be appropriate given the amounts involved, but this is continually under review and may change depending on the Group's currency exposure and economic conditions.

At 31 December 2011, if the US dollar had strengthened by 10% against the Group's foreign currencies with all other variables held constant, post-tax loss for the year would have been US\$13,941 higher (2010: US\$2,000 lower), as a result of foreign exchange gains or losses on translation of UK pound, Euro, United Arab Emirate Dirham, denominated payables and receivables.

The directors believe net foreign currency risk is at an acceptable level.

Interest rate risk

Interest rate risk is not considered significant, as the Group currently does not have any liabilities that accrue interest. There is some exposure to cash flow interest rate risk on the funds held in variable interest rate bank accounts. The average variable interest rate during 2011 was 0.88% (2010: 0.70%).

At 31 December 2011, if interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year and equity would have been US\$ 39,673 higher/lower (2010: US\$ 37,328 higher/lower).

The directors believe cash flow and interest rate risk is at an acceptable level.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligation, resulting in a financial loss to the Group. Credit risk is considered by geography, counterparty and currency, and arises from cash and cash equivalents, deposits with banks and financial institutions, as well as outstanding receivables relating to services paid in advance. The Group gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk.

The majority of the Group's cash is held with HSBC Bank in the United Arab Emirates and the United Kingdom. HSBC Bank has a credit rating of AA. As at 31 December 2011, the concentration of credit risk held with HSBC Bank was US\$3,020,189 (2010: US\$12,496,000). There are no other significant concentrations of credit risk at the reporting date.

The directors believe credit risk is at an acceptable level.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient cash is available to fund on-going operations without the need to carry significant net debt. The Group currently has no borrowings.

Cash flow forecasting is undertaken on a weekly basis and the weekly forecast is circulated to the key management including two directors. Any free funds identified are invested in short-term deposits.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

24 FINANCIAL INSTRUMENTS (continued)

All financial liabilities are contracted to mature within one year

The directors believe liquidity risk is at an acceptable level

Fair value estimation

The carrying value of assets and liabilities is considered equal to their fair value due to their short term nature

Maturity of financial assets and liabilities

All of the Group's financial liabilities and financial assets are either payable or receivable within one year

COMPANY

The Company's activities expose it to a variety of financial risks, including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance

Capital risk management

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

The Company's capital comprises cash and equity attributable to owners of the parent (share capital, share premium, share based payment reserve and retained earnings). In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets

Consistent with others in the industry, the Company plans to monitor capital on the basis of the gearing ratio. The gearing ratio is calculated as net debt divided by total capital. This ratio is not currently applicable as the Company does not have any borrowings. The Company is financed by the issue of shares

Categories of financial instrument

	Loans and receivables	
	2011 US\$'000	2010 US\$'000
Assets as per statement of financial position		
Other receivables (excluding prepayments)	176	133
Cash and cash equivalents	1,950	10,250
	<u>2,126</u>	<u>10,383</u>
	Liabilities at amortised cost	
	2011 US\$'000	2010 US\$'000
Liabilities as per statement of financial position		
Trade and other payables (excluding statutory liabilities)	596	533
	<u></u>	<u></u>

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

24 FINANCIAL INSTRUMENTS (continued)

Market risk

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, with respect to the UK pound, the Euro and the United Arab Emirate Dirham. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Currencies are purchased at the prevailing exchange rate on the day the foreign currency is required. The Company funds are not switched between currencies for speculative reasons unless the directors request this due to their expectations of foreign exchange rate movements. The Company does not currently hedge its cash flows as the directors do not believe this to be appropriate given the amounts involved, but this is continually under review and may change depending on the Company's currency exposure and economic conditions.

At 31 December 2011, if the US dollar had strengthened by 10% against the Company's foreign currencies with all other variables held constant, post-tax loss for the year would have been US\$4,106 higher (2010 US\$4,000 lower), as a result of foreign exchange gains/losses on translation of UK pound, Euro, United Arab Emirate Dirham, denominated payables and receivables.

The directors believe net foreign currency risk is at an acceptable level.

Interest rate risk

Interest rate risk is not considered significant, as the Company currently does not have any liabilities that accrue interest. There is some exposure to cash flow interest rate risk on the funds held in variable interest rate bank accounts. The average variable interest rate during 2011 was 0.88% (2010 0.70%).

At 31 December 2011, if interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year and equity would have been US\$ 39,673 higher/lower (2010 US\$ 37,328 higher/lower).

The directors believe cash flow and interest rate risk is at an acceptable level.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligation, resulting in a financial loss to the Group. Credit risk is considered by geography, counterparty and currency, and arises from cash and cash equivalents, deposits with banks and financial institutions, as well as outstanding receivables relating to services paid in advance. The Company gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk.

The majority of the Company's cash is held with HSBC Bank in the United Arab Emirates and the United Kingdom. HSBC Bank has a credit rating of AA. As at 31 December 2011, the concentration of credit risk held with the banks was US\$1,907,120 (2010 US\$10,240,000). There are no other significant concentrations of credit risk at the reporting date.

The directors believe credit risk is at an acceptable level.

Liquidity risk

The Company's policy on liquidity risk is to ensure that sufficient cash is available to fund on-going operations without the need to carry significant net debt. The Group currently has no borrowings.

Cash flow forecasting is undertaken on a weekly basis and the weekly forecast is circulated to the key management including two directors. Any free funds identified are invested in short-term deposits.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

24 FINANCIAL INSTRUMENTS (continued)

All financial liabilities are contracted to mature within one year

The directors believe liquidity risk is at an acceptable level

Fair value estimation

The carrying value of assets and liabilities is considered equal to their fair value due to their short term nature

Maturity of financial assets and liabilities

All of the Company's financial liabilities and financial assets are either payable or receivable within one year, apart from amounts due from subsidiaries

25 FINANCIAL COMMITMENTS

The Group's financial commitments are in respect of the petroleum exploration agreements it has entered into with the Governments of the Democratic Republic of Congo, Burundi and Malawi, as well as a Farm-out Agreement with ENI Oil Holdings BV. A summary of the Group's estimated net outstanding commitments as at 31 December 2011, based on minimum work programmes agreed with the partner and host governments is provided below

GROUP	2011 US\$'000	2010 US\$'000
No later than 1 year	8,647	5,446
No later than 5 years	49,312	2,435
	<u>57,959</u>	<u>7,881</u>
COMPANY	2011 US\$'000	2010 US\$'000
No later than 1 year	3,132	-
No later than 5 years	4,063	-
	<u>7,195</u>	<u>-</u>

26 OPERATING LEASE COMMITMENTS

The Group leases land and buildings under operating lease agreements. As at 31 December 2011 the future aggregate minimum lease payments under non-cancellable operating leases are as follows

GROUP	2011 US\$'000	2010 US\$'000
No later than 1 year	375	389
No later than 5 years	281	30
	<u>656</u>	<u>419</u>
COMPANY	2011 US\$'000	2010 US\$'000
No later than 1 year	349	369
No later than 5 years	281	30
	<u>630</u>	<u>399</u>

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26 OPERATING LEASE COMMITMENTS (continued)

During the year, US\$61,011 was capitalised under oil and gas exploration assets in relation to operating lease rentals (2010 US\$104,798)

27 ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party due to the company's shareholding structure

28 RELATED PARTY DISCLOSURES

GROUP AND COMPANY

<i>Compaigne Forestiere D'Abanga ("CFA") a Company in which Pierre Achach, a director of the Company has an interest</i>	2011 US\$'000	2010 US\$'000
Amounts paid for fees	139	161
Amounts paid for expenses	64	64
Amounts outstanding at the year end	1	-
Commitments outstanding at the year-end	45	-

<i>05 Energy Advisors a Company in which Christopher Pitman, a director of the Company, has an interest</i>	2011 US\$ 000	2010 US\$'000
Amounts paid for fees	17	53

<i>Christopher Pitman, a director of the Company</i>	2011 US\$ 000	2010 US\$'000
Amounts paid for expenses	1,022	730
Amounts owed to the Company at the year end	18	80

<i>Jacaranda Investment and Consulting Inc a Company in which Stephane Rigny, a former director of the Company, has interest</i>	2011 US\$'000	2010 US\$'000
Amounts paid for expenses	-	9

<i>Jan Aarso Nielsen, a director of the Company</i>	2011 US\$ 000	2010 US\$'000
Amounts paid for expenses	9	-
Amounts outstanding at the year end	4	-

Amounts paid to key management personnel are disclosed in note 7

No interest has been applied to the advances given to the directors as they all relate to business expenses

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

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28 RELATED PARTY DISCLOSURES (continued)

COMPANY

Receivables due from subsidiaries

	2011 US\$'000	2010 US\$'000
Surestream RDC Sarl	15,877	17,172
Surestream Petroleum (Burundi)	5,556	3,839
Surestream Technical Services	2,582	183
	<u>24,015</u>	<u>21,194</u>

The amounts receivable from subsidiaries are capitalised as part of the investment in the subsidiaries. During the year the Company provided funding and recharged costs to the subsidiaries.

29 EVENTS AFTER THE REPORTING PERIOD

The following significant events have occurred since the reporting date:

In April 2012, the Board mandated a financial advisory firm in the UK to advise the Group on the identification of a strategic investor to make a capital injection to the Group.

In July 2012, the Group carried out a rights issue in the form of short term loans convertible to ordinary shares. The issue was fully subscribed and total of US\$5 million was raised from the current shareholders.