



Surestream

PETROLEUM

Surestream Petroleum Limited

REPORT AND FINANCIAL STATEMENTS
for the year ended
31 December 2012

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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
Ahmed Khelif
Reidar Michaelsen

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 2012

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 2012, the Group incurred US\$2 10 million in gross exploration activities in the DRC

Yema and Matamba-Makanzi ("YMM") PSA

The Group had informed the DRC Government of its intention to enter the second exploration period of the PSA on 29 June 2011 subsequent to the relinquishment of 50% of the surface in line with the PSA requirements. The DRC Government acknowledged their acceptance of the relinquishment, however since then have not issued the new Exploration License to Surestream for the second exploration period.

It was reported earlier that Glencore had withdrawn from the PSA, following a failed farm-out attempt to Pluspetrol due to delays in the license renewal. Following Glencore's withdrawal, the Group initiated the necessary procedures to re-assign Glencore's 42% interest back to the Group's DRC subsidiary Surestream RDC Sarl. At the date this report is written an agreement to re-assign Glencore's 42% interest back to Surestream has not yet been concluded.

During 2012, the Group has operated on a care and maintenance basis to minimize its costs while waiting for the second exploration period license to be sanctioned by the DRC Government.

Ndunda PSA

During 2012, the Group remained as non-operating partner in the Ndunda PSA and was billed by ENI, the operator, for its share of general G&G and G&A costs. ENI had a similar difficulty with the license renewal following which it decided to suspend its one well exploration drilling work programme until the receipt of the exploration license from the DRC Government.

In view of the increasing uncertainty over the renewal of the exploration licences, the directors consider that the net realisable value of the DRC assets may have impaired and therefore an impairment provision of US\$10 million was recorded in 2012 to reduce the net book value of the DRC assets to US\$5 67 million. The directors consider the remaining carry value to be recoverable based on the interest of potential farm-in partners for the YMM PSA and their expectations in respect of the likelihood of receiving the licence renewals in the short term without the need for escalation of the matter to a legal proceeding.

Burundi

During 2012, the Group continued working on the fabrication and procurement of the equipment that is required for the conversion of the Tanganyika Explorer vessel from a fishery research vessel into a seismic acquisition vessel. Subsequent to the completion of the purchasing all equipment was shipped to Burundi in July 2012.

On 25 September 2012, the Group received from the Burundi Government the renewal of its permit for the exploration of block B.

During 2012, the Group reinforced its relationship with the villages of local fishermen along the shores of Lake Tanganyika within its permit area by sponsoring a football tournament of 12 teams.

Costs incurred in Burundi exploration operations totalled US\$2 1 million in 2012.

Surestream Petroleum Limited

DIRECTORS' REPORT

Malawi

During 2012, the Group commenced an Environmental and Social Impact Assessment ("ESIA") A presentation attended by all the main governmental agencies was given to explain and establish the terms of reference for the ESIA study

In the meantime, an interpretation study of the reprocessed probe data commenced It is expected that the results of this study will be used to refine the layout of the proposed seismic survey

During 2012, the Group assessed the feasibility of opening a football academy as part of its corporate social responsibility programme in Malawi Meetings with the Ministry of Sport and Youth Development as well as the Malawi Football association resulted in a sponsorship deal with the Football Association of Malawi (FAM) This involved the refurbishment of the local stadium of Blantyre that was completed in July 2012 over a period of 2 months and was later furnished and equipped The official opening was completed in October and Surestream Football Academy Limited was formed as a subsidiary

During 2012, the Group incurred US\$3.4 million of exploration costs in Malawi

Financing

The Group's operations in 2012 were funded by shareholder equity and income generated from data sales New equity was issued on the basis of expected commitments

Key Performance Indicators ("KPIs")

The Board has defined the below key performance indicators ("KPIs") in measuring the Group's performance in 2012 based on its strategy,

- 1 Total acreage held At 31 December 2012, the Group held 22,433 square kms of exploration acreage (2011 22,433 square km)
- 2 Total gross exploration expenditure The Group has incurred US\$8.8 million in gross exploration expenditure (2011 US\$18.4 million)
- 3 Ratio of administrative expenses to gross exploration expenditure In 2012, administrative expenses were 0.419 times the gross exploration expenditures (2011 0.148 times)
- 4 Ratio of corporate social responsibility ("CSR") expenditures to gross exploration expenditure In 2012, CSR expenditures represented 8% of the gross exploration expenditure (2011 6%)
- 5 Employee retention rate In 2012, the employee retention rate stood at 100% (2011 93%)

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 2013 and 2014 are planned to be the following,

- 1 YMM PSA (DRC) The Group is still pursuing the renewal of the exploration licence with the DRC Government The transfer of Glencore's participating interest back to Surestream is also pending for regulatory approvals In the meantime, the Group is actively working to find a new farm-in partner and commence the second exploration period work programme
- 2 Ndunda PSA (DRC) The operator of the PSA, ENI, suspended its one well drilling programme until the receipt of the exploration licence renewal from the DRC Government It is expected that the drilling operations will commence subsequent to the licence renewal
- 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 2013 with a view to commencing the acquisition programme by early 2014

Surestream Petroleum Limited

DIRECTORS' REPORT

- 4 Malawi Licences (Block 2 and Block 3) The final report on the ESIA is scheduled to be presented to the stakeholders and approval to commence the works is expected to be in place by close of 2013. It is intended that aerial surveys will commence during early 2014. Initial planning on the options and methodology for acquiring seismic data on Lake Malawi will be carried out throughout 2014.

EVENTS SINCE THE END OF THE YEAR

The Group raised a total of US\$6.15 million from its existing shareholders through three equity and one debt issues carried out in January, July and October 2013,

On 22 January 2013, 3,571,427 ordinary shares were issued for a total consideration of US\$2,500,000. The nominal value of the ordinary shares issued was US\$542.14.

On 8 July 2013, 3,883,333 ordinary shares were issued for a total consideration of US\$2,330,000. The nominal value of the ordinary shares issued was US\$604.40.

On 30 October 2013, 1,583,333 ordinary shares were issued for a total consideration of US\$950,000. The nominal value of the ordinary shares issued was US\$256.40.

On 30 October 2013, US\$368,221 was raised from an unsecured loan placement subscribed by seven lenders for a two-month term at 1% interest per month.

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 operates and 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.

Financial Risk

The Group's exposure to financial risks and the risk management policies that the Group has adopted are described in note 25 of the financial statements.

Surestream Petroleum Limited

DIRECTORS' REPORT

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 including the firm and contingent commitments

The Group currently has an equity investment offer and a farm-in offer, which are both documented firm offers and they are not mutually exclusive. In addition to these offers, an investment bank is mandated to assist the Company to raise up to US\$20 million by selling new shares in Northern Europe

Based on the above the directors have reasonable expectations that the Group will be able to raise sufficient funds 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 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 (2011 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 – deceased 1 August 2013

Ahmed Khelif

Reidar Michaelsen – appointed 3 September 2013

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.

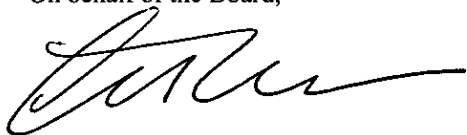
STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

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,



Christopher N Pitman
Chief Executive Officer

15 November 2013

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 44. 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 Financial Reporting Council's website at [http://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Scope-of-audit/UK-Private-Sector-Entity-\(issued-1-December-2010\).aspx](http://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Scope-of-audit/UK-Private-Sector-Entity-(issued-1-December-2010).aspx).

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 2012 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 equity fund-raising and other potential transactions, on which the Group is dependent in order to continue operating as a going concern. This 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.

Surestream Petroleum Limited

AUDITOR'S REPORT

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for 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

20 November 2013

Surestream Petroleum Limited
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2012

	<i>Notes</i>	2012 US\$'000	2011 US\$'000
Operating expenses – pre-licensing costs	5	(770)	(1,368)
Administrative expenses	6	(3,683)	(2,722)
Impairment of exploration assets	13	(10,000)	-
Other income	8	2,317	-
OPERATING LOSS		(12,136)	(4,090)
Finance costs	19	(173)	-
Finance income	9	-	70
LOSS BEFORE TAXATION		(12,309)	(4,020)
Taxation	10	-	-
LOSS FOR THE YEAR	22	(12,309)	(4,020)

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 44 are an integral part of these financial statements

Surestream Petroleum Limited

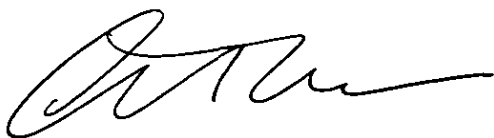
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

Company Registration No 5238607

	Notes	2012 US\$'000	2011 US\$'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	13	16,977	19,962
Property, plant and equipment	14	2,039	2,935
TOTAL NON-CURRENT ASSETS		19,016	22,897
CURRENT ASSETS			
Inventories	15	1	220
Other receivables	16	419	400
Cash and cash equivalents	17	826	3,236
TOTAL CURRENT ASSETS		1,246	3,856
TOTAL ASSETS		20,262	26,753
EQUITY AND LIABILITIES			
EQUITY			
Share capital	19	18	17
Share premium	20	46,963	41,796
Share based payment reserve	21	4,151	4,151
Retained earnings	22	(33,703)	(21,394)
TOTAL EQUITY		17,429	24,570
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	18	2,833	2,183
TOTAL CURRENT LIABILITIES		2,833	2,183
TOTAL EQUITY AND LIABILITIES		20,262	26,753

The financial statements were approved and authorised for issue by the Board on 15 November 2013



Christopher N Pitman
Chief Executive Officer

The notes on pages 16 to 44 are an integral part of these financial statements

Surestream Petroleum Limited
COMPANY STATEMENT OF FINANCIAL POSITION
31 December 2012

Company Registration No 5238607

	Notes	2012 US\$'000	2011 US\$'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	13	4,964	1,604
Property, plant and equipment	14	117	238
Investments	12	13,048	24,138
TOTAL NON-CURRENT ASSETS		18,129	25,980
CURRENT ASSETS			
Other receivables	16	260	317
Cash and cash equivalents	17	576	1,950
TOTAL CURRENT ASSETS		836	2,267
TOTAL ASSETS		18,965	28,247
EQUITY AND LIABILITIES			
EQUITY			
Share capital	19	18	17
Share premium	20	46,963	41,796
Share based payment reserve	21	4,151	4,151
Retained earnings	22	(32,949)	(18,475)
TOTAL EQUITY		18,183	27,489
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	18	782	758
TOTAL CURRENT LIABILITIES		782	758
TOTAL EQUITY AND LIABILITIES		18,965	28,247

The financial statements were approved and authorised for issue by the Board on 15 November 2013



Christopher N Pitman
Chief Executive Officer

The notes on pages 16 to 44 are an integral part of these financial statements

Surestream Petroleum Limited
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

		Attributable to owners of the parent				
	<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 2011		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	21	-	-	10	-	10
Proceeds of share issues (net of costs)	19,20	-	1	-	-	1
Total transactions with owners		-	1	10	-	11
BALANCE AT 31 DECEMBER 2011		17	41,796	4,151	(21,394)	24,570
<i>Comprehensive income</i>						
Loss for the year		-	-	-	(12,309)	(12,309)
Total comprehensive income		-	-	-	(12,309)	(12,309)
<i>Transactions with owners</i>						
Shared based payment charge	21	-	-	-	-	-
Proceeds of share issues (net of costs)	19,20	1	5,167	-	-	5,168
Total transactions with owners		1	5,167	-	-	5,168
BALANCE AT 31 DECEMBER 2012		18	46,963	4,151	(33,703)	17,429

The notes on pages 16 to 44 are an integral part of these financial statements

Surestream Petroleum Limited
COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

		Attributable to owners of the company				
	Notes	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 2011		17	41,795	4,141	(14,644)	31,309
<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	21	-	-	10	-	10
Proceeds of share issues (net of costs)	19,20	-	1	-	-	1
Total transactions with owners		-	1	10	-	11
BALANCE AT 31 DECEMBER 2011		17	41,796	4,151	(18,475)	27,489
<i>Comprehensive income</i>						
Loss for the year		-	-	-	(14,474)	(14,474)
Total comprehensive income		-	-	-	(14,474)	(14,474)
<i>Transactions with owners</i>						
Shared based payment charge	21	-	-	-	-	-
Proceeds of share issues (net of costs)	19,20	1	5,167	-	-	5,168
Total transactions with owners		1	5,167	-	-	5,168
BALANCE AT 31 DECEMBER 2012		18	46,963	4,151	(32,949)	18,183

The notes on pages 16 to 44 are an integral part of these financial statements

Surestream Petroleum Limited
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	<i>Notes</i>	2012 US\$'000	2011 US\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	23	(1,107)	(3,899)
Net cash used in operating activities		(1,107)	(3,899)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	14	(676)	(2,869)
Purchases of intangible assets	13	(7,015)	(6,403)
Proceeds from farm-out disposal	13	-	3,655
Proceeds from disposal of property, plant and equipment	14	1,393	48
Interest received	9	-	70
Net cash outflow from investing activities		(6,298)	(5,499)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	19, 20	5,173	1
Finance cost incurred at conversion of debt to equity	19, 20	(173)	-
Issue costs	19, 20	(5)	-
Net cash generated from financing activities		4,995	1
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,410)	(9,397)
Cash and cash equivalents at beginning of year		3,236	12,633
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	826	3,236

The notes on pages 16 to 44 are an integral part of these financial statements

Surestream Petroleum Limited
COMPANY STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	<i>Notes</i>	2012 US\$'000	2011 US\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	23	<u>(4,113)</u>	<u>(3,784)</u>
Net cash used in operating activities		(4,113)	(3,784)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net advances (to)/from subsidiaries	12	1,090	(2,822)
Purchases of intangible assets	13	(3,360)	(1,604)
Purchases of property, plant and equipment	14	(53)	(209)
Proceeds from sale of property, plant and equipment	14	67	48
Interest received	9	<u>-</u>	<u>70</u>
Net cash used in investing activities		(2,256)	(4,517)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible loan	19, 20	5,173	1
Accrued interest at conversion of loan to ordinary shares	19, 20	(173)	-
Issue costs	19, 20	<u>(5)</u>	<u>-</u>
Net cash generated from financing activities		4,995	1
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(1,374)</u>	<u>(8,300)</u>
Cash and cash equivalents at beginning of year		<u>1,950</u>	<u>10,250</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	<u>576</u>	<u>1,950</u>

The notes on pages 16 to 44 are an integral part of these financial statements

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1 GENERAL INFORMATION

Surestream Petroleum Limited and its subsidiaries ("the Group") conduct oil and gas exploration in Burundi, Malawi and Democratic Republic of the Congo. 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 IFRS 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 authorisation of these financial statements, the following standards, amendments to existing standards and interpretations relevant to the Group were in issue but not yet effective:

- IAS 19 (revised June 2011) - Employee Benefits
- IFRS 13 - Fair Value Measurement
- IFRS 12 - Disclosure of Interests in Other Entities
- IFRS 11 - Joint Arrangements
- IFRS 10 - Consolidated Financial Statements
- IFRS 9 - Financial Instruments - Classification and Measurement
- IAS 28 (revised May 2011) - Investments in Associates and Joint Ventures
- IAS 27 (revised May 2011) - Separate Financial Statements

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.

The Company's principal 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.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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 2012 was 0.6152 (2011: 0.6435). The average rate during the year was 0.6278 (2011: 0.6211).

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	33 1/3% per annum
Furniture, fixtures and equipment	33 1/3% per annum
Computer software	33 1/3% per annum
Motor vehicles	33 1/3% per annum

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

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

c) Assets under construction

The cost of tangible assets, which are under construction, includes expenditure incurred during construction, delivery and modification. Where a substantial period of time is required to bring the asset into use, the overheads attributable to the asset are also capitalised and included in the cost of the asset. No depreciation is charged on assets under construction.

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

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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.

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 CONVERTIBLE LOANS

Convertible loans are recognised as a liability in the Statement of Financial Position, net of transaction costs. On issue of convertible loans, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds is allocated to the equity component and is recognised in shareholders' equity.

2.16 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.

2.17 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.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.18 PENSION COSTS

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

2.19 REVENUE

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied.

The group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the group's activities, as described below.

Income was generated in the year from the sale of access to data. For sales of services, revenue is recognised in the accounting period in which the services are rendered.

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

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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 including the firm and contingent commitments

The Group currently has an equity investment offer and a farm-in offer, which are both documented firm offers and they are not mutually exclusive. In addition to these offers, an investment bank is mandated to assist the Company to raise up to US\$20 million by selling new shares in Northern Europe

Based on the above the directors have reasonable expectations that the Group will be able to raise sufficient funds 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 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\$17.0 million (2011: US\$20.0 million) and US\$10 million of impairment loss was recognised in the year (2011: nil).

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 results

The following is an analysis of the Group's results from continuing operations by reportable segment

Segment results	2012 US\$'000	2011 US\$'000
Democratic Republic of Congo	(10,026)	(137)
Burundi	2,191	(40)
Malawi	(46)	(628)
Expenses allocated to segments	(7,881)	(805)
Administrative expenses – central overheads	(3,658)	(2,528)
Pre-licensing costs not allocated to existing segments	(770)	(757)
Finance income	-	70
Loss for the year	(12,309)	(4,020)

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

4 SEGMENT INFORMATION (continued)

The above segment results include,

- (a) income of US\$2.3 million in Burundi segment in respect of sale of geological and geophysical data
- (b) impairment loss of US\$10 million in the Democratic Republic of Congo segment

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

	2012 US\$'000	2011 US\$'000
Segment assets		
Democratic Republic of Congo	5,809	15,032
Burundi	8,536	7,611
Malawi	5,057	1,677
Total segment assets	19,402	24,320
Unallocated	860	2,433
Consolidated assets	20,262	26,753
Segment liabilities		
Democratic Republic of Congo	(1,680)	(1,123)
Burundi	(371)	(301)
Malawi	(2)	(5)
Total segment liabilities	(2,053)	(1,429)
Unallocated	(780)	(754)
Consolidated liabilities	(2,833)	(2,183)

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.

	2012 US\$'000	2011 US\$'000
Additions to non-current assets		
Democratic Republic of Congo	2,097	3,313
Burundi	2,099	4,315
Malawi	3,378	1,631
Unallocated	-	182
	7,574	9,441

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.

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

5 OPERATING EXPENSES

	2012 US\$'000	2011 US\$'000
Pre-licensing costs	770	1,368

6 ADMINISTRATIVE EXPENSES AND AUDITOR'S REMUNERATION

	2012 US\$'000	2011 US\$'000
Depreciation and amounts written off property, plant and equipment Charge for the period – owned assets	89	106
Employee salary and benefits expense	1,867	1,879
Foreign exchange losses	31	11
Auditor's remuneration – audit services	62	65
Auditor's remuneration – tax services	1	65
Operating lease rentals – office rent	330	375
Contractors	523	255
Legal fees	420	294
Loss/(gain) on disposal of fixed assets	19	(8)
Other costs and recharges	341	(320)
	<u>3,683</u>	<u>2,722</u>

7 EMPLOYEE BENEFIT EXPENSE AND KEY MANAGEMENT EMPLOYMENT COSTS

	2012 No	2011 No
The average monthly number of persons (including directors) employed by the Group during the year was		
Office and management	10	10
Technical	6	6
Field operations	28	26
	<u>44</u>	<u>42</u>

	2012 US\$'000	2011 US\$'000
Staff costs for the above persons		
Wages and salaries (including all benefits except pension)	4,367	4,196
Pension costs	320	282
Social security costs	350	352
Share-based payment (employee options)	-	10
	<u>5,037</u>	<u>4,840</u>

The above costs include US\$3,086,674 (2011 US\$2,961,238) of wages, salaries and social security costs which were capitalised as additions to intangible exploration and evaluation assets in the year

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

7 EMPLOYEE BENEFIT EXPENSE AND KEY MANAGEMENT EMPLOYMENT COSTS
(continued)

KEY MANAGEMENT EMPLOYEES

	2012 US\$'000	2011 US\$'000
In respect of the key management employees (excluding directors) of Surestream Petroleum Limited		
Emoluments and other benefits	732	738
Pension costs	85	59
Share-based payment (employee options)	-	1
	<u>817</u>	<u>798</u>

Key management employees are provided with a severance benefit equal to two years of pay that only becomes due under certain conditions subsequent to a change in control of the Company

DIRECTORS

	2012 US\$'000	2011 US\$'000
In respect of the directors of Surestream Petroleum Limited		
Emoluments and other benefits	933	1,071
Pension costs	95	97
Sums paid to third parties for the directors' services	332	184
Share-based payment (employee options)	-	9
	<u>1,360</u>	<u>1,361</u>

Executive directors are provided with a severance benefit equal to two years of pay that only becomes due under certain conditions subsequent to a change in control of the Company

	2012 US\$'000	2011 US\$'000
Directors emoluments disclosed above include the following payments in respect of the highest paid director		
Emoluments and other benefits	770	751
Pension	95	97
Share-based payment (employee options)	-	3
	<u>865</u>	<u>851</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 29

8 OTHER INCOME

	2012 US\$'000	2011 US\$'000
Income on sale of data	<u>2,317</u>	<u>-</u>

Other income is recorded in respect of sale of interpreted geological and geophysical data to an oil exploration company

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

9 FINANCE INCOME

	2012 US\$'000	2011 US\$'000
Interest income on short term deposits	-	70

10 TAXATION

	2012 US\$'000	2011 US\$'000
Current tax		
UK corporation tax on loss for the year	-	-
Factors affecting tax charge for the year	2012 US\$'000	2011 US\$'000
The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 24.5% (2011 26.5%) The differences are explained below		
Loss before tax	(12,309)	(4,020)
Loss multiplied by standard rate of corporation tax in the UK	(3,016)	(1,065)
Effects of		
Expenses not deductible for tax purposes	65	42
Depreciation (lower than)/in excess of capital allowances	7	(26)
Tax losses not recognised in deferred tax	2,944	1,049
Tax charge for year	-	-

The Group has approximately US\$24.2 million of tax losses carried forward (2011 US\$12.7 million)
A deferred tax asset of US\$5.9 million at 24.5% (2011 US\$3.2 million) in respect of these losses has not been recognised due to uncertainty as to the recoverability of these losses

11 LOSS OF THE PARENT COMPANY

The parent Company's loss for the year to 31 December 2012 amounted to US\$14,474,580 (2011 US\$3,831,380). The Company has taken advantage of the exemption available under the Companies Act from publishing a Company income statement.

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

12 INVESTMENTS

COMPANY	US\$'000
Cost	
At 1 January 2011	21,316
Advances and recharges to subsidiaries	6,339
Cash recovery and recharges from subsidiaries	(3,517)
31 December 2011	<u>24,138</u>
Advances and recharges to subsidiaries	3,252
Cash recovery and recharges from subsidiaries	(4,342)
At 31 December 2012	<u>23,048</u>
Accumulated impairment	
At 1 January 2011	-
Provisions	-
Reversals	-
31 December 2011	<u>-</u>
Provisions	(10,000)
Reversals	-
At 31 December 2012	<u>(10,000)</u>
Net book value	
At 31 December 2012	<u>13,048</u>
At 31 December 2011	<u>24,138</u>
At 1 January 2011	<u>21,316</u>

Details of the Company's subsidiaries at 31 December 2012 are as follows

Name of Subsidiary	Place of Incorporation	Ownership Interest	Voting Power	Principal Activity
Surestream RDC Sarl	Democratic Republic of Congo	99.99%	100%	Oil exploration
Surestream Petroleum (Burundi) Limited	British Virgin Islands	100%	100%	Oil exploration
Surestream Petroleum (Malawi Holding) Limited	British Virgin Islands	100%	100%	Oil exploration (Dormant)
Surestream Technical Services Limited	British Virgin Islands	100%	100%	Technical services
Surestream Petroleum Limited	British Virgin Islands	100%	100%	Technical services (Dormant)
Surestream Football Academy Limited	Republic of Malawi	100%	100%	Corporate social responsibility project

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

13 INTANGIBLE ASSETS

GROUP	Oil and gas exploration and evaluation assets US\$'000
Cost	
At 1 January 2011	13,390
Additions	6,572
At 31 December 2011	<u>19,962</u>
Additions	7,015
At 31 December 2012	<u>26,977</u>
Accumulated impairment	
At 1 January 2011	-
Provisions	-
At 31 December 2011	-
Provisions	(10,000)
At 31 December 2012	<u>(10,000)</u>
Net book value	
At 31 December 2012	<u>16,977</u>
At 31 December 2011	<u>19,962</u>
At 1 January 2011	<u>13,390</u>

Impairment test for exploration and evaluation assets

Each year the Group undertakes a review of the carrying value of exploration and evaluation assets to determine if there are 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.

The total cost of intangible assets at year-end includes US\$15.7 million in respect of the two DRC Production Sharing Agreements ("PSA"), which are pending for renewal for a new 5-year term by the DRC Government. The Group together with its farm-in partners have made the formal applications on 29 June 2011 to enter into the second exploration period in both of the PSAs. The DRC Government has neither approved nor refused the issuance of the licences required for the Group to carry out the exploration work programme. Taking into consideration the increasing uncertainty over the renewal of the licences, the Management considered that the net realisable value of the DRC assets have impaired and therefore an impairment provision of US\$10 million was recorded in 2012 to reduce the carrying value of the DRC assets to US\$5.7 million. The Management considers the US\$5.7 million to be the fair value of the DRC assets after deduction of the costs of disposal based on the interest of potential farm-in partners for the YMM PSA and their expectations in respect of the likelihood of receiving the licence renewals in the short term without the need for escalation of the matter to a legal proceeding.

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

13 INTANGIBLE ASSETS (continued)

COMPANY	Oil and gas exploration and evaluation assets US\$'000
Cost and net book value	
At 1 January 2011	-
Additions	1,604
At 31 December 2011	1,604
Additions	3,360
At 31 December 2012	4,964

14 PROPERTY, PLANT AND EQUIPMENT

GROUP	Plant and machinery US\$'000	Furniture, fixtures and equipment US\$'000	Motor vehicles US\$'000	Computer software US\$'000	Total US\$'000
Cost					
At 1 January 2011	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
Additions	623	54	-	-	677
Disposals	(1,332)	-	(81)	-	(1,413)
At 31 December 2012	3,134	288	107	183	3,712
Depreciation					
At 1 January 2011	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
Charged/capitalised in the year*	83	47	43	18	191
Disposals	(18)	-	(13)	-	(31)
At 31 December 2012	1,211	202	84	176	1,673
Net book value					
At 31 December 2012	1,923	86	23	7	2,039
At 31 December 2011	2,697	79	134	25	2,935
At 1 January 2011	205	25	95	55	380

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

14 PROPERTY, PLANT AND EQUIPMENT (continued)

Plant and machinery included the cost of refurbishing a chartered research vessel (R/V Tanganyika Explorer), which is being refurbished to make it fit for acquisition of marine seismic data over the Burundi exploration licences of the Group. The total carrying cost of refurbishment at year-end is US\$1 89 million and no depreciation has been charged in this balance as the vessel is not yet in use.

* Depreciation of US\$101,449 (2011: US\$168,998) 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.

COMPANY	Furniture, fixtures and equipment US\$'000	Motor vehicles US\$'000	Computer software US\$'000	Total US\$'000
Cost				
At 1 January 2011	154	199	183	536
Additions	80	129	-	209
Disposals	-	(140)	-	(140)
At 31 December 2011	234	188	183	605
Additions	53	-	-	53
Disposals	-	(81)	-	(81)
At 31 December 2012	287	107	183	577
Depreciation				
At 1 January 2011	129	104	128	361
Charged/capitalised in the year*	26	50	30	106
Disposals	-	(100)	-	(100)
At 31 December 2011	155	54	158	367
Charged/capitalised in the year*	48	43	17	108
Disposals	-	(15)	-	(15)
At 31 December 2012	203	82	175	460
Net book value				
At 31 December 2012	84	25	8	117
At 31 December 2011	79	134	25	238
At 1 January 2011	25	95	55	175

* Depreciation of US\$18,573 (2011: nil) 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 2012

15 INVENTORIES

	2012 US\$'000	2011 US\$'000
GROUP		
Material and equipment	<u>1</u>	<u>220</u>

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\$227,389 (2011: US\$25,346) have been capitalised as part of the cost of additions to intangible exploration and evaluation assets in the year.

In 2012 the Group has provided US\$179,150 in provisions against components which are not required and cannot be sold (2011: nil).

16 OTHER RECEIVABLES

	2012 US\$'000	2011 US\$'000
GROUP		
Due within one year		
Receivables from PSA partners	100	13
Receivables from related parties	42	18
Prepayments	94	161
Receivables in respect of other tax and social security	79	101
Other receivables	<u>104</u>	<u>107</u>
	<u>419</u>	<u>400</u>

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

	2012 US\$'000	2011 US\$'000
COMPANY		
Receivables from related parties	42	18
Prepayments	70	141
Receivables in respect of other tax and social security	79	92
Other receivables	<u>69</u>	<u>66</u>
	<u>260</u>	<u>317</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:

	2012 US\$'000	2011 US\$'000
GROUP		
United Arab Emirates Dirham	7	6
Euro	23	10
UK Pound	147	138
Malawian Kwacha	<u>16</u>	<u>-</u>
	<u>193</u>	<u>154</u>

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
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16 OTHER RECEIVABLES (continued)

COMPANY	2012 US\$'000	2011 US\$'000
United Arab Emirates Dirham	7	6
Euro	13	-
UK Pound	147	129
Malawi Kwacha	16	-
	<u>183</u>	<u>135</u>

17 CASH AND CASH EQUIVALENTS

GROUP	2012 US\$'000	2011 US\$'000
Cash at bank and on hand	<u>826</u>	<u>3,236</u>

COMPANY	2012 US\$'000	2011 US\$'000
Cash at bank and on hand	<u>576</u>	<u>1,950</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

The Group has no amounts pledged as security in support of bank guarantees

All of the Group's cash and cash equivalents at 31 December 2012 are held in United States Dollars except for US\$64,013, US\$57,312 and US\$512 (2011 US\$103,403, US\$275,607 and US\$nil) held in United Arab Emirates Dirhams, UK Pounds and Malawi Kwachas respectively

All of the Company's cash and cash equivalents at 31 December 2012 are held in United States Dollars except for US\$64,013, US\$57,312 and US\$512 (2011 US\$103,403, US\$275,607 and US\$nil) held in United Arab Emirates Dirhams, UK Pounds and Malawi Kwachas respectively

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

18 TRADE AND OTHER PAYABLES

	2012 US\$'000	2011 US\$'000
GROUP		
Trade payables	1,956	1,498
Other tax and social security	172	188
Other payables	6	7
Accruals	699	490
	<u>2,833</u>	<u>2,183</u>

	2012 US\$'000	2011 US\$'000
COMPANY		
Trade payables	473	483
Other tax and social security	144	162
Other payables	2	1
Accruals	163	112
	<u>782</u>	<u>758</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

On 30 October 2013, the Company raised US\$368,221 from an unsecured loan placement subscribed by seven lenders for a two-month term at 1% interest per month

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

	2012 US\$'000	2011 US\$'000
GROUP		
United Arab Emirates Dirham	3	-
Euro	34	92
UK Pound	903	581
South Africa Rand	2	-
Malawi Kwacha	1	-
	<u>943</u>	<u>673</u>

	2012 US\$'000	2011 US\$'000
COMPANY		
United Arab Emirates Dirham	3	-
Euro	34	69
UK Pound	580	486
South Africa Rand	2	-
Malawi Kwacha	1	-
	<u>620</u>	<u>555</u>

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

19 SHARE CAPITAL

GROUP AND COMPANY	2012 US\$'000	2011 US\$'000
Authorised		
107,600,000 (2011 107,600,000) ordinary shares of 0.01p each	20	20
13,000,000 (2011 13,000,000) preference shares of 0.01p each	3	3
	<u>23</u>	<u>23</u>
Allotted, issued and fully paid		
93,919,308 (2011 86,528,991) ordinary shares of 0.01p each	17	16
6,000,000 (2011 6,000,000) preference shares of 0.01p each	1	1
	<u>18</u>	<u>17</u>

Movements in share capital

2012

On 26 December 2012, 7,390,317 ordinary shares were issued for a total consideration of US\$5,173,250 by conversion of the loans to equity. The nominal value of the ordinary shares issued was US\$1,201.30.

2013

On 22 January 2013, 3,571,427 ordinary shares were issued for a total consideration of US\$2,500,000. The nominal value of the ordinary shares issued was US\$542.14.

On 8 July 2013, 3,883,333 ordinary shares were issued for a total consideration of US\$2,330,000. The nominal value of the ordinary shares issued was US\$604.40.

On 30 October 2013, 1,583,333 ordinary shares were issued for a total consideration of US\$950,000. The nominal value of the ordinary shares issued was US\$256.40.

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.

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.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

19 SHARE CAPITAL (continued)

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 would either be repaid by 31 December 2012 or converted to ordinary shares. On 26 December 2012, the loans were converted into ordinary shares and 7,390,317 ordinary shares were issued for a total consideration of US\$5,173,250 being the principal and the accrued interest of the loans given to the Company. The amount of US\$173,250 was recorded as interest expense. The nominal value of the ordinary shares issued was US\$1,201.30.

Warrants

The Company has issued warrants over shares as follows:

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 2012, no Class D warrants were outstanding (2011: 1,000,000).

20 SHARE PREMIUM ACCOUNT

	2012 US\$'000	2011 US\$'000
GROUP AND COMPANY		
At 1 January	41,796	41,795
Premium on issue of new shares	5,172	1
Share issue costs	(5)	-
At 31 December	<u>46,963</u>	<u>41,796</u>

21 SHARE BASED PAYMENT RESERVE

	2012 US\$'000	2011 US\$'000
GROUP AND COMPANY		
At 1 January	4,151	4,141
Share based payment charge	-	10
At 31 December	<u>4,151</u>	<u>4,151</u>

22 RETAINED EARNINGS

	2012 US\$'000	2011 US\$'000
GROUP		
At 1 January	(21,394)	(17,374)
Loss for the year	(12,309)	(4,020)
At 31 December	<u>(33,703)</u>	<u>(21,394)</u>

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

22 RETAINED EARNINGS (continued)

	2012 US\$'000	2011 US\$'000
COMPANY		
At 1 January	(18,475)	(14,644)
Loss for the year	(14,474)	(3,831)
At 31 December	<u>(32,949)</u>	<u>(18,475)</u>

23 CASH FLOWS FROM OPERATING ACTIVITIES

	2012 US\$'000	2011 US\$'000
GROUP		
Loss before taxation	(12,309)	(4,020)
Adjustments for		
Finance expense/(income)	173	(70)
Depreciation	160	106
Impairment of intangible assets	10,000	-
Share based payments	-	10
Loss/(profit) on disposal of property, plant and equipment	19	(8)
Decrease in inventories	219	1
(Increase) in receivables	(19)	(115)
Increase in payables	650	197
CASH USED IN OPERATIONS	<u>(1,107)</u>	<u>(3,899)</u>

	2012 US\$'000	2011 US\$'000
COMPANY		
Loss before taxation	(14,474)	(3,831)
Adjustments for		
Finance expense/(income)	173	(70)
Depreciation	108	106
Provision for impairment of investments	10,000	-
Share based payments	-	10
Profit on disposal of property, plant and equipment	(1)	(8)
Decrease/(increase) in receivables	57	(112)
Increase in payables	24	121
CASH USED IN OPERATIONS	<u>(4,113)</u>	<u>(3,784)</u>

24 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.

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

24 SHARE BASED PAYMENT (continued)

Further details of the share option grants are as follows

	No of options	2012 Weighted average exercise price US\$	No of options	2011 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>3,632,000</u>	<u>0.46</u>

No options were forfeited or exercised during 2012 (2011: nil)

	At 1 January 2012	Granted during the year	At 31 December 2012
The options were held by the following			
Directors	3,432,000	-	3,432,000
Other management and staff	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Total	<u>3,632,000</u>	<u>-</u>	<u>3,632,000</u>

The expiry date of the share options were extended to 11 March 2015

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

Expiry date	Exercise price per share	No. of options 2012	2011
11 March 2015 (2011: 20 November 2014)	US\$0.01	1,252,800	1,252,800
11 March 2015 (2011: 11 March 2013)	US\$0.70	<u>2,379,200</u>	<u>2,379,200</u>
		<u>3,632,000</u>	<u>3,632,000</u>
		2012 US\$'000	2011 US\$'000
Expense arising from share option grants		<u>-</u>	<u>10</u>

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

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

24 SHARE BASED PAYMENT (continued)

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.

No additional gain or loss was recognised due to the extension of options to 11 March 2015.

25 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	
	2012 US\$'000	2011 US\$'000
Assets as per statement of financial position		
Other receivables (excluding prepayments)	325	239
Cash and cash equivalents	826	3,236
	<u>1,151</u>	<u>3,475</u>
	Liabilities at amortised cost	
	2012 US\$'000	2011 US\$'000
Liabilities as per statement of financial position		
Trade and other payables (excluding statutory liabilities)	<u>2,661</u>	<u>1,995</u>

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.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

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25 FINANCIAL INSTRUMENTS (continued)

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 2012, 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\$56,237 higher/lower (2011 US\$13,941 higher), as a result of foreign exchange gains or losses on translation of UK pound, Euro, United Arab Emirate Dirham, Malawi Kwacha and South Africa Rand 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 insignificant exposure to cash flow interest rate risk on the funds held in variable interest rate bank accounts. The average variable interest rate during 2012 was 0.01% (2011 0.88%).

At 31 December 2012, if interest rates had been 0.5% higher with all other variables held constant, post-tax profit for the year and equity would have been US\$9,772 higher (2011 US\$39,673 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 2012, the concentration of credit risk held with HSBC Bank was US\$565,367 (2011 US\$3,020,189). 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.

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.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

25 FINANCIAL INSTRUMENTS (continued)

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	
	2012 US\$'000	2011 US\$'000
Assets as per statement of financial position		
Other receivables (excluding prepayments)	190	176
Cash and cash equivalents	577	1,950
	<u>767</u>	<u>2,126</u>
	Liabilities at amortised cost	
	2012 US\$'000	2011 US\$'000
Liabilities as per statement of financial position		
Trade and other payables (excluding statutory liabilities)	<u>638</u>	<u>596</u>

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.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

25 FINANCIAL INSTRUMENTS (continued)

At 31 December 2012, 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\$31,529 higher/lower (2011 US\$4,106 higher), as a result of foreign exchange gains/losses on translation of UK pound, Euro, United Arab Emirate Dirham, Malawi Kwacha and South Africa Rand 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 insignificant exposure to cash flow interest rate risk on the funds held in variable interest rate bank accounts. The average variable interest rate during 2012 was 0.01% (2011 0.88%)

At 31 December 2012, if interest rates had been 0.5% higher with all other variables held constant, post-tax profit for the year and equity would have been US\$9,772 higher (2011 US\$39,673 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 2012, the concentration of credit risk held with the banks was US\$347,392 (2011 US\$1,907,120). 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.

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.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

26 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 2012, based on minimum work programmes agreed with the partner and host governments is provided below

GROUP	2012 US\$'000	2011 US\$'000
No later than 1 year	5,126	8,647
No later than 5 years	<u>35,516</u>	<u>49,312</u>
	<u>40,642</u>	<u>57,959</u>
COMPANY	2012 US\$'000	2011 US\$'000
No later than 1 year	1,179	3,132
No later than 5 years	<u>2,032</u>	<u>4,063</u>
	<u>3,211</u>	<u>7,195</u>

27 OPERATING LEASE COMMITMENTS

The Group leases land and buildings under operating lease agreements. As at 31 December 2012 the future aggregate minimum lease payments under non-cancellable operating leases are as follows

GROUP	2012 US\$'000	2011 US\$'000
No later than 1 year	386	375
No later than 5 years	<u>28</u>	<u>281</u>
	<u>414</u>	<u>656</u>
COMPANY	2012 US\$'000	2011 US\$'000
No later than 1 year	354	349
No later than 5 years	<u>28</u>	<u>281</u>
	<u>382</u>	<u>630</u>

During the year, US\$98,994 was capitalised under oil and gas exploration assets in relation to operating lease rentals (2011 US\$61,011)

28 ULTIMATE CONTROLLING PARTY

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

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

29 RELATED PARTY DISCLOSURES

GROUP AND COMPANY

***Tanganyika Invest s.u.** a Company in which Pierre Achach, a director of the Company has an interest*

	2012 US\$'000	2011 US\$'000
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Amounts paid for fees	377	-
Amounts paid for expenses	32	-
Amounts outstanding at the year end	<u>3</u>	<u>-</u>

***Compaigne Forestiere D'Abanga ("CFA")** a Company in which Pierre Achach, a director of the Company has an interest*

	2012 US\$'000	2011 US\$'000
--	------------------	------------------

Amounts paid for fees	-	139
Amounts paid for expenses	23	64
Amounts outstanding at the year end	-	1
Commitments outstanding at the year-end	<u>-</u>	<u>45</u>

***05 Energy Advisors** a Company in which Christopher Pitman, a director of the Company, has an interest*

	2012 US\$'000	2011 US\$'000
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Amounts paid for fees	<u>-</u>	<u>17</u>
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***Christopher Pitman**, a director of the Company*

	2012 US\$'000	2011 US\$'000
--	------------------	------------------

Amounts paid for expenses	776	1,022
Amounts owed to the Company at the year end	<u>42</u>	<u>18</u>

***Jan Aarso Nielsen**, a director of the Company*

	2012 US\$'000	2011 US\$'000
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Amounts paid for expenses	5	9
Amounts outstanding at the year end	<u>-</u>	<u>4</u>

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

COMPANY

Receivables due from / (payables to) subsidiaries

	2012 US\$'000	2011 US\$'000
Surestream RDC Sarl	16,124	15,877
Surestream Petroleum (Burundi)	6,807	5,556
Surestream Technical Services	(5)	2,582
	<u>22,926</u>	<u>24,015</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

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

30 EVENTS AFTER THE REPORTING PERIOD

The Group raised a total of US\$6.15 million from its existing shareholders through three equity and one debt issues carried out in January, July and October 2013,

On 22 January 2013, 3,571,427 ordinary shares were issued for a total consideration of US\$2,500,000. The nominal value of the ordinary shares issued was US\$542.14.

On 8 July 2013, 3,883,333 ordinary shares were issued for a total consideration of US\$2,330,000. The nominal value of the ordinary shares issued was US\$604.40.

On 30 October 2013, 1,583,333 ordinary shares were issued for a total consideration of US\$950,000. The nominal value of the ordinary shares issued was US\$256.40.

On 30 October 2013, US\$368,221 was raised from an unsecured loan placement subscribed by seven lenders for a two-month term at 1% interest per month.