Regulatory Story

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Xtract Energy Plc

Final results

For the year ended 31 December 2011

Xtract Energy Plc ("Xtract" or "the Company") announces its final results for the year ended 31 December 2011.

Financial Highlights

· Net loss of £4.31m (six month period ended 31 December 2010: £1.39m loss)
· Net cash of £4.49m (six month period ended 31 December 2010: £8.77m)
· Net assets of £8.37m (six month period ended 31 December 2010: £8.33 m)

Operational Highlights

· Acquisition of the remaining Elko Energy Inc share capital satisfied by the issuance of 350,245,343 new ordinary shares in Xtract
· Completion of sale of Xtract's 50% holding in Extrem Energy AS
· Placing of 240,000,000 shares at a price of 1.25p each to raise £3,000,000 before expenses
· Equity Line Facility established for a maximum of £12,500,000.
· Luna well spudded in Denmark by Noreco on 12 February 2012 - no hydrocarbons encountered and well was plugged and abandoned
· P2-10 well spudded in Netherlands by Chevron in January 2012 - drilling results expected summer 2012
· Extrem Energy AS - Contractual agreement signed between Xtract, Merty, Extrem and the Yoldemir family whereby Xtract has disposed of its 50% holding in Extrem Energy AS
· Worley Parsons provide a technical study on various oil shale extraction techniques
· Major board strengthening including the appointment of Dr. George Watkins appointed as Non-Executive Chairman

Post period end event

· Signed agreements with Santos providing the basis for Santos and Xtract to pursue an exit from their jointly owned Zhibek Resources Ltd and their indirect interest in KNG Hydrocarbons
· Xtract has received a 10.5% (approximately) holding in ASX-listed Caspian Oil & Gas Ltd from Santos
· Allows previously committed funds to be diverted to other investment opportunities

Peter Moir, Chief Executive of Xtract commented:
"2011 has been a year of significant change for the Company. We successfully completed a re-admission to AIM, changing from an investment company to an operating company following the acquisition of the outstanding shares in Elko Energy Inc. which we did not already own. We also disposed of our interest in Extrem Energy AS for a royalty agreement. While we are optimistic for the outcome of the Chevron well in the Netherlands, we believe that maximising the probability of exploration success requires a portfolio approach that includes a range of prospects with different risk profiles across a spread of acreage. As such, we will continue to seek new and exciting opportunities and the Board continues to look to the future with confidence."

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Chairman's Statement

This is my first annual statement as Chairman of your Company. It is clear that 2011 has been a year of significant change both for the oil and gas industry and for Xtract Energy plc.

General market sentiment throughout 2011 was one of concern for the global economy and the future of the Eurozone. For the first half of 2011, this concern was accompanied by a slow drift downwards in the oil price which, in turn, impacted the AIM oil and gas sector to reduce merger and acquisitions activity and make it difficult to raise investment capital. It is only in recent months, as this trend has reversed and the market has seen a steadily rising oil price, that confidence seems to be returning and merger activity is again on the agenda.

It is not clear how much this oil price rise is driven by political instability or by a return to global demand associated with growth and this increase in activity may still be fragile in terms of underlying support.

Corporate

Within Xtract, the direction for 2011 was set in the 30 June 2010 Annual Report where John Newton, the then Chairman spoke of "Xtract continuing its transformation from passive investor to one with a much more active involvement in the operations of its investee companies and from having a diversified energy portfolio to one which is much more focused on traditional oil and gas". He also reported that "a further business review is in progress involving the independent directors of Xtract and Elko in which the two companies have agreed to form a joint task force to identify the strategic options open to both companies".

One of the conclusions from this review was that Xtract should change from being listed on AIM as an investment company and seek to relist as a trading and operating company. In June 2011, as the first step in this process, Xtract made an offer to acquire all the issued and to be issued share capital in Elko Energy Inc ("Elko") that it did not already own. This offer to acquire the remaining shares in Elko set in motion the relisting process because, in making the offer, it meant that Xtract's existing admission to AIM as an investment company was no longer valid. Trading in Xtract shares was therefore suspended from 21 June 2011, the date of the offer for Elko shares.

Subsequent to this, the Company and its advisors prepared and issued a new Admission Document and applied to AIM for re-admission as an operating and trading company. This process, including the placing of 240,000,000 shares at 1.25 pence and an agreement with YA Global masters SPV to provide Xtract with a £12.5 million Equity Line Facility, was completed on 12 September 2011. The enlarged Xtract Group, including 100% of Elko Energy Inc, was re-admitted to trading on 13 September 2011.

During the period of share suspension, on 1 July 2011, the Company announced my appointment to the Board as Non-Executive Chairman. Effective the same date John Newton stepped down as Non-Executive Chairman and Mark Nichols stepped down as a Non-Executive Director. Post completion of the Elko transaction, on 12 September 2011, Mr Jeremy Kane was appointed to the Board. Mr Kane's appointment as a Non-Executive director serves to provide continuity for the ex-Elko shareholders.

Portfolio

Another conclusion from the strategic review was the decision to continue the process started in 2010 to rationalise the portfolio so as to focus more on traditional oil and gas assets that could add value to the Company in the near to medium term.

An early objective was to get wells drilled on the prospects that had been identified on the Denmark and Netherlands acreage held by Elko. This objective was achieved by (i) a farmout to Altinex Oil Denmark A/S (a fully owned subsidiary of Norwegian Energy Company ("Noreco") in Denmark and (ii) an agreement with Chevron E & P Netherlands BV to purchase Elko's licence interest in Blocks P1 and P2 in the Netherlands in return for an overriding royalty on possible future production and Euro 4.3 million in cash. These deals meant not only that the Netherlands well would be drilled at no cost to Xtract while retaining a royalty interest in any production resulting from the P1 and P2 acreage but also that Xtract had the funds needed to participate in drilling the Denmark well.

Noreco spudded the Luna well in license 01/11 in Denmark on 12 February 2012 using the Maersk Resolve jack-up rig. The well was plugged and abandoned as a dry hole, having encountered Zechstein, anhydrite and dolomite lying directly on weathered volcanics rather than the Rotliegendes sandstone reservoir as prognosed. The outcome not only absorbed the majority of our existing cash resources but will also result in a significant impairment charge in the first quarter of 2012 in respect of what is currently our core asset.

The task now is to use the additional control point provided by this well to re-interpret the surrounding seismic to evaluate whether there is still a valid Rotliegendes play in the area. This activity is expected to yield results in the summer of 2012. Only then will we have a firm basis on which to determine how best to proceed with the Danish acreage and whether it has any value to the Group.

Poor weather conditions offshore delayed the arrival of the Noble Byron Welliver rig for the drilling of the Netherlands well and Chevron spudded the P2-10 well on 11 January 2012. Having cemented casing at the top Zechstein, Chevron have designated P2-10 as a tight hole in order to protect the proprietary technology being used to drill the well. The results of the well will be available during the summer of 2012.

The process of portfolio rationalisation has continued with agreements for Xtract to exit from Turkey (in 2011) and the Kyrgyz Republic (in 2012), thereby avoiding further financial exposure while retaining participation in possible future production through royalty agreements in the case of Turkey and in the case of Zhibek receiving a 10.5 % interest in the shares of Caspian Oil and Gas Ltd.

In Australia, the Company has mineral rights over approximately 2 billion barrels of oil shale contingent resources at Julia Creek, Queensland through its subsidiary Xtract Oil Ltd ("XOL"). Xtract has sought to maintain these mineral rights in its portfolio at limited expense so as to retain the option to exploit the resource when technology and investment conditions indicate that an economic project can be justified.

During 2011, Worley Parsons were commissioned to prepare a technical study on oil shale extraction methodologies and to recommend options that might allow value to be realised from this asset. This report is being used to determine a possible path forward for both Julia Creek and the Memorandum Of Understanding on the potential oil shale deposits in Morocco.

A more detailed account of all these portfolio actions can be found in the Chief Executive's report.

Outlook

Our near term focus is on the Netherlands where the P2-7 well is currently being drilled by Chevron. We are optimistic for the outcome of this well, and are also evaluating other opportunities in the Netherlands. However, the Company strongly believes that maximising the probability of exploration success requires a portfolio approach that includes a range of prospects with different risk profiles across a spread of acreage. In addition to the Netherlands, the Company is therefore continuing its efforts to source and progress new assets in other areas.

Xtract's strategy, since re-admission has been to seek to grow through targeted exploration in areas where discoveries can be brought into production and become cash generating within a reasonable time frame. However, exploration and production companies also grow by balancing investment between exploration, development and production opportunities. Xtract is not yet of a size where it has the resources for significant investment in the development and production stages of the life cycle. However, should the Company identify opportunities that complement its exploration effort, these may be considered for investment.

The Board remains focussed on unlocking the optimum value for all shareholders.

Thanks

In conclusion I would like to thank John Newton, my predecessor as Chairman, and Mark Nichols as a former director for providing the strategic direction for the merger of Xtract and Elko. I would also like to thank Peter Moir and Alan Hume our CEO and CFO respectively. Under their strong executive guidance and leadership, I am confident that Xtract will make the right choices for exploration success and production growth.

CEO's Review

The operations of the Company are focused on the development of the core oil and gas asset portfolio in the geographical areas described below.

Denmark

Through its Danish subsidiary, the Company participates in two exploration licences in Denmark, namely 02/05 and 01/11.

In January 2011, the 02/05 licence group, Noreco, Elko Energy A/S and the Danish state run Nordsofondoen, was awarded a new licence 01/11 covering 1,900 square km, immediately to the west of the original 02/05 licence area. The 02/05 licence group relinquished 3,645 square km of the original 02/05 licence as part of this award. The new licence 01/11 required that an exploration well be drilled no later than 24 months after issuance of the licence. The 01/11 licence is for an overall six year period and has a series of work program commitments and options as are typical in licences of this nature. The revised 02/05 Licence was extended in March 2011 until 27 January 2013, which corresponds to the Phase 1 deadline in the 01/11 Licence.

In February 2011, an updated independent Competent Persons Report was prepared for Elko by TRACS International Ltd ("TRACS") covering the 02/05 and 01/11 licence areas in order to quantify the hydrocarbon resource base. Upon completion of the farm in, the total net attributable prospective resources to Elko reported in the CPR for the Rotliegendes Lead A, the Luna prospect and the Chalk Channel were 2,044 billion cubic feet, under a gas scenario and 747 million barrels under an oil scenario.

The 01/11 partners selected a location for drilling the 'Luna' prospect, which had been chosen to test the Rotliegendes play in the optimum position in terms of reservoir quality, thickness and hydrocarbon charge for the combined prospective area. The Rotliegendes reservoir was thought to have a high probability of being present at this location based on the seismic interpretation. Uncertainty still existed however on which seismic event represents the top reservoir and where the pinch out occurred. In addition to the uncertainty on the pinch out position, there was a possibility that the Rotliegendes did not, in fact, pinch out but continued up dip into Lead A. It is therefore possible that Luna and Lead A are connected and represent one feature.

In May 2011, it was announced that the Luna well would be drilled by the "Maersk Resolve" jack up drilling unit. The Maersk Resolve arrived at the Luna location on 10 February 2012 and spudded the Luna well on 12 February 2012. Unfortunately the well did not find hydrocarbons having encountered Zechstein anhydrite and dolomite lying directly on weathered volcanic conglomerates, rather than the Rotliegendes sandstone reservoir as prognosed. The well was drilled to a total depth of 2,073 metres below mean sea level. A core was taken, side wall cores collected and extensive wireline log measurements carried out. Following consultation with the Danish Energy Agency ("DEA") that the Licence obligations had been met, the decision was made by the 01/11 partners to plug and abandon the well as a dry hole.

The task now is to use the additional control point provided by this well to re-interpret the surrounding seismic to evaluate the geological model as to whether there is still a valid Rotliegendes play in the area. This seismic re-interpretation will be performed by independent consultants on behalf of Xtract. Once this activity is completed and discussed with the 01/11 & 02/05 partners, with Noreco as operator for the licences, the Company will have a firm basis on which to determine how best to proceed with the Danish acreage.

Netherlands

In the Netherlands sector of the North Sea, Elko held two gas-bearing exploration blocks. Block P1 is located on the southern margin of Southern Permian Gas basin and covers approximately 209 square km. Seven wells have been drilled by previous operators, of which five encountered gas. Block P2 is directly adjacent and east of Block P1 and covers approximately 416 square km. Elko held a 60% interest in the two licences, with the Dutch State company Energie Beheer Nederland B.V. as its participating partner.

On 21 September 2010, it was announced that an agreement had been finalised under which Chevron Exploration and Production Netherlands B.V. ("Chevron") purchased Elko's licences in Blocks P1 and P2. In consideration for their total interest in the Blocks, Elko will receive an overriding royalty of up to 5% of the sales value from Chevron gas delivered into the Dutch National Transmission System and Chevron condensate delivered onshore. This transaction completed in December 2010 and Elko received Euro 4.3 million in cash from Chevron for past costs.

On 25 May 2011, it was announced that Chevron had assigned 20% of their working interest in the offshore blocks P1 and P2 (including the associated overriding royalty arrangement with Elko) to TAQA Energy B.V. ("TAQA") and that regulatory approvals had been received. After state participation through Energie Beheer Nederland B.V. ("EBN") at 40%, the effective interests in the two blocks are Chevron 48%, TAQA 12% and EBN 40%. This assignment by Chevron to TAQA has no effective impact on the overriding royalty interest held by Elko on the P1 and P2 blocks.

Chevron decided to drill the first well on the P2 block since its acquisition of the two licences. The P2-10 appraisal well targets an existing gas discovery on the P2 block (P2-7, with low levels of CO_2) and one of the main objectives is to evaluate commercial hydrocarbon flow rates from an extended reach horizontal well within the Rotliegendes sandstone reservoir. The P2-10 well is currently being drilled by Chevron using the Noble Byron Welliver jack-up drilling rig and is designated as "tight hole" in order to protect their proprietary technology being used to drill the well ("tight hole" meaning information regarding specific activity and progress is strictly confidential to the working interest partners; Elko is not a working interest holder). At the time of writing, this well is still being drilled and we anticipate that the results of the well will be known in the summer of 2012.

If the well proves to be commercially successful, Xtract management believe that exploitation of the asset could potentially be achieved relatively quickly, due to the proximity of existing infrastructure. Beyond the current appraisal well there are a number of identified prospects and existing discoveries across the P1 and P2 blocks that could be significant to Xtract.

In June 2010, (prior to Chevron's purchase of Blocks P1 and P2), an updated independent Competent Persons Report ('CPR') was prepared, on behalf of Elko, by TRACS covering the existing discovered gas reservoirs and identified prospects on Blocks P1 and P2 in order to quantify the hydrocarbon resource base.

Contingent Resources: Five confirmed discoveries have been assessed with an un-risked best estimate net attributable hydrocarbon gas to Chevron and TAQA of some 280 billion cubic feet (46.67 million barrels of oil equivalent). TRACS assigned commercial chance of success for the five discoveries in the range 40% to 75%. The chance of commercial success is the currently perceived chance, or probability, that these contingent resources will mature into reserves by means of a viable development scenario. The un-risked high estimate net attributable hydrocarbon gas to Chevron and TAQA is some 514 billion cubic feet.

Prospective Resources: Six key prospects in the exploration portfolio amount to some 291 billion cubic feet (48.5 million barrels of oil equivalent) un-risked best estimate net attributable hydrocarbon gas to now Chevron and TAQA. TRACS assigned probability of success for the six exploration prospects in the range of 45% to 65%. The estimated probability of success is the currently perceived chance, or probability, that the prospective resources will mature into contingent resources. The un-risked high estimate net attributable hydrocarbon gas to Chevron and TAQA is some 533 billion cubic feet.

The overall objective for Xtract in the Netherlands is to create a series of near term opportunities at relatively modest capital exposure to the Company that have the potential to create an underpinning revenue stream for a period of years. The potential prize would be to enable Xtract to grow as a company by pursuing a larger and varied risk/reward portfolio of assets.

Australia

Xtract acquired its oil shale exploration rights over mining tenements at Julia Creek, Queensland, Australia in two tranches in late 2005 and early 2006. Xtract has the rights to extract oil shale from these tenements whilst Intermin Resources Ltd holds the rights to extract minerals such as Vanadium and Molybdenum from the same tenements.

Queensland Moratorium

In August 2008 the Queensland Premier declared a twenty year moratorium on oil shale mining on a proposed oil shale development in the Whitsunday coastal region. From the same date there was also a two year review period imposed on all proposed oil shale developments throughout the state during which no new mining activity would be permitted. The moratorium has not yet been rescinded despite the initially declared two year period having expired. Following the announcement in 2008, Xtract put its oil shale activity on a care and maintenance footing until the outcome of the moratorium was known. Xtract has sought to maintain these mineral rights at limited expense so as to retain the option to exploit the resource when the moratorium is lifted and technology and investment conditions indicate that an economic project can be justified.

On 24 March 2012 the Liberal National Party was returned in the Queensland Government election, replacing the previous Labour administration. It is not yet clear whether this change in administration will impact on the moratorium but, assuming that some activity towards development of oil shale within Queensland may now be permissible and given the financial commitments involved, it would seem timely to try to seek a partner to help fund some exploratory activity such as a pilot plant.

Worley Parsons Study

During 2011, Worley Parsons were commissioned by Xtract to prepare a technical study on oil shale extraction methodologies and to recommend options that might allow value to be realised from this asset. On 13 February 2012 the Company advised that it was in receipt of the study and was reviewing the results. This report is being used to determine a possible path forward for the Julia Creek asset. The contents of the report are held confidential, but its principal conclusions may be summarised as follows:

Hydrogenation is in principle attractive because it yields significantly more oil than conventional thermal retorting in laboratory conditions; however there are significant technical, economic and financial challenges to achieve commercial realisation. The faster route to commercialisation of the Julia Creek oil shale deposit and the one which offers the best chance of an economic development would be to make use of commercially proven thermal retorting technology.

The major attraction of selecting oil shale retorting is that the technology supplier would provide and guarantee a proven technology which could be implemented in the shortest timeframe whereas hydrogenation loads all the process risk on Xtract and would require an enormous pre-investment and long period to reach commercial production. Of the numerous retorting processes which have been trialled and developed over many years, there are a limited number which have proven performance to a significant production scale. Even here, there is only a limited amount of technical process performance data available in the public domain, so a definitive evaluation is not possible. These processes have made noticeable performance improvements over recent years, such that it makes their consideration for the exploitation of Julia Creek more meaningful if and when the moratorium is lifted.

Economics of these projects continue to be a major challenge. One reason is that many of these technologies have been developed where there has been a need for an alternative source of crude oil, and economics was not the main driving force. For example, Petrobras was an early proponent of oil shale development. However, in recent times Brazil has located significant oil reserves offshore and the incentive from Petrobras to promote its oil shale process appears to have waned. Environmental considerations are also a major factor. The oil reserves of the Green River Basin in the USA are enormous but the environmental constraints are particularly severe. This may be the reason Shell has moved away from above ground retorting and is now focusing its efforts on the below ground ICP process.

In summary, the challenge for development of the Julia Creek oil shale is one of technology and being confident that this technology can provide a profitable return on the large amount of investment required. The results of the Worley Parsons survey confirm that, while the Julia Creek oil shale is a valuable asset to hold, it is not likely to be income or cash generating in the near or medium term. Rather, any activity towards proving up an economic development is likely to be high risk and a significant user of cash. As a next step, it would therefore seem sensible to seek out a joint venture partner to assist with funding this activity. Ideally, this joint venture partner should also have experience in the technology required for oil shale production.In parallel with this effort to seek a joint venture partner, Xtract also intends to engage with the new Queensland administration about the current moratorium and their ambitions for the future of oil shale development in Queensland.

Turkey

As a result of management's strategic review of the Xtract assets it was announced on 4 May 2011, that a Heads of Agreement had been signed between Xtract, Extrem, Merty and the Yoldemir family, whereby Merty was to acquire Xtract's 50% share ownership in Extrem. Merty and the Yoldemir family, as owners of Extrem, agreed to grant Xtract certain gross overriding royalty interests in the existing licences and to make other payments in consideration for the assignment of Xtract's 50% share in Extrem. This agreement was completed on 24 August 2011. The details of the royalty and other payments are as follows:

Gross Over Riding Royalty Interest ("GORRI")

The GORRI payments would be made licence by licence and on the basis that Xtract would be entitled to the applicable GORRI percentage of gross hydrocarbon sales revenue after state royalty (currently 12.5%) has been deducted. These percentages range from 6 to 8% between the six licences.

Processing Royalty

The processing royalty is based on a USD $5 gross royalty per barrel processed through the existing production facility, after a deduction for state royalty and plant operating costs. The royalty becomes payable once the plant has reached 500 barrels per day throughput, with a total capped payment of USD $500,000.

Farm In Success Payments

A payment upon each discrete successful farm out by Extrem to a third party will trigger a payment to Xtract of USD $200,000. Based on the six licences that are included in the transaction, total success by Merty would result in a payment to Xtract of USD $1,200,000.

Signing payment

A payment was made on signature of the fully termed Assignment Agreement and the associated Royalty Agreement. This one off payment was USD $100,000.

The outcome of this transaction will enable Merty and Extrem to fund and progress the licences through farm out with new partners. Xtract benefits from this strategy in that it will have no further financial liability in relation to Extrem or the Turkish licences but Xtract will benefit from near term income whilst retaining a significant upside participation in potential successful commercial production scenarios through the royalty agreements. No amounts have yet been earned in respect of the GORRI, processing royalty or farmin success payments.

Kyrgyz Republic

In 2008, Xtract farmed out a 75% share in former subsidiary Zhibek Resources Ltd ("Zhibek") to Santos International Holdings Pty Ltd in return for Santos providing amongst other deliverables funding towards a well in the Tash Kumyr licence which Zhibek holds in the Krygyz Republic.
During the three and a half years since Santos acquired its interest in Zhibek Resources Ltd, KNG Hydrocarbons acquired and processed approximately 100km of new 2D seismic data and a new prospect was identified. However given the lack of material prospects identified in the exploration licences held by KNG Hydrocarbons and the decision by Santos to exit the Kyrgyz Republic, Xtract also made the decision to pursue a withdrawal from the Kyrgyz Republic.

On 3 May 2012 Xtract announced that it had signed agreements in relation to the Farmin Subscription Agreement executed amongst Santos International Holdings Pty Ltd ("SIHPL"), Xtract International Ltd ("Company") and Xtract Energy Plc on 17th November 2008 for an interest in Zhibek Resources Ltd, which holds a majority interest in the Kyrgyz company KNG Hydrocarbons. The signing of these agreements provides the basis for Santos and Xtract to pursue an exit from their jointly owned Zhibek Resources Ltd and their indirect interest in KNG Hydrocarbons.

Pursuant to the agreements, Xtract International Ltd has acquired from Santos 140,000,000 ordinary shares in Caspian Oil & Gas Ltd, an oil producer and explorer listed on the Australian Securities Exchange (ASX:CIG). The consideration for that transfer is a release from Xtract to Santos and its related parties from certain funding obligations under the Farmin Subscription Agreement. Xtract holds no other shares in CIG, and the holding represents approximately 10.5 per cent of the shares in issue.

Morocco

In September 2008 Xtract formed a joint venture company, Xtract Energy (Oil Shale) Morocco S.A. ("XOSM") with Alraed Limited Investment Holding Company WLL, a company controlled by His Highness, Prince Bandar Bin Mohd. Bin Abdulrahman Al-Saud of Saudi Arabia. XOSM has signed a Memorandum Of Understanding with the Moroccan Office National des Hydrocarbures et des Mines ("ONHYM") for the purposes of evaluation and possible development of an oil shale deposit near Tarfaya, in the south west part of Morocco. Xtract currently holds 70 per cent of the joint venture.

The Worley Parsons study confirmed that whilst hydrogenation is in principle attractive because it yields significantly more oil than conventional thermal retorting in laboratory conditions, the faster route to commercialisation of oil shale deposits and which offers the best chance of an economic development would be to make use of commercially proven thermal retorting technology. The Company intends to discuss the findings of the Worley Parsons study with its partner and representatives of the ONHYM with a view to possible exploitation of Moroccan oil shale using the latest generation retorting processes.

Business Development

Xtract's strategy, from re-admission has been to seek to grow through targeted exploration in areas where discoveries can be brought into production and become cash generating within a reasonable time frame. Management supports a portfolio approach to exploration that includes a range of prospects with different risk profiles across a spread of acreage. In recent months, Xtract has been active in evaluating a number of opportunities that are consistent with this adopted strategy, not only in the Netherlands but in other areas. Whilst none have yet met Xtract's criteria for investment, we are optimistic that some of the opportunities currently being evaluated will meet these criteria. We look forward to updating shareholders in due course.

Dated: 4th May 2012

Peter Moir
Chief Executive Officer

Financial Review

Financial Summary Table

	Year ended 31 December 2011 (£million)	Six month period ending 31 December 2010 (£million)
Consolidated income result from continuing operations		
Administrative and operating expenses	(4.17)	(1.95)
Other gains and losses	0.24	1.159
(Loss) after tax	(4.31)	(1.39)
(Loss) per share	(0.36p)	(0.18p)
Consolidated balance sheet position		
Intangible assets - exploration and evaluation	2.81	2.05
Investment in associates	-	0.40
Investment in joint venture	-	0.07
Financial assets	-	0.50
Assets held-for-sale	0.55	-
Cash	4.49	8.77
Total assets	9.32	12.31
Total equity	8.37	8.33
Total equity - number of issued shares	1,532,857,428 shares	854,965,026 shares

Income statement analysis
The Group reported a net loss after tax of £4,314,000 (6 month period ended 31 December 2010: £1,394,000) and basic loss per share of 0.36p (6 month period ended 31 December 2010: basic loss per share of 0.18p).

Administrative and operating expenses amounted to £4.17 million for the year ended 31 December 2011 (6 months ended 31 December 2010: £1.95 million). This amount was inclusive of £1.8 million transaction costs arising on the acquisition of 50.03% of Elko Energy Inc and subsequent re-admission to AIM.
Other gains and losses in the year of £0.24 million related to the realisation of a £0.38 million foreign exchange translation reserve gain on the disposal of the joint venture in Extrem AS and a £0.14 million loss on the disposal of shares held in Lochard Energy Group plc (6 month period ended 31 December 2010: £1,159,000).

Finance costs include foreign exchange losses arising predominantly on Group intercompany loans in the period and non-Pound Sterling cash balances translated, amounting to £129,000 (6 month period ended 31 December 2010: gain of £836,000). There was also an associated implementation fee of £0.25 million incurred in securing the Equity Line Facility of up to £12.5 million over 3 years with YA Global Master SPV ltd.

Acquisition and Investment Activity
In March 2011 Xtract received $1.1million (£0.64 million) consideration from Noreco to farm into the Danish 02/05 licence thereby acquiring a 47% interest in licence 02/05 with Xtract, through its Danish subsidiary Elko Energy AS, retaining a 33% interest. In the year to 31 December 2011 Xtract invested £2.6 million towards well planning and associated up front costs of the drilling activity that commenced on the licence in February 2012. At year end, the Group had capitalised £2.8 million in respect of the Luna prospect, all of which will be written off in 2012 following the unsuccessful outcome of their drilling campaign.

In September 2011 Xtract acquired the outstanding non-controlling interest in Elko Energy Inc (50.03%) in a share-for-share transaction resulting in the issue of 350,245,343 ordinary shares.

Xtract sold its investment in Lochard Energy Group plc (previously named Rheochem) for proceeds of £449,000 realising a loss of £141,000 on the original purchase price.

At 31 December 2011 Xtract had transferred its interest in Zhibek Resources plc from an investment in associate to an asset held-for-sale pending the finalisation of an agreement with Santos to dispose of this investment. As compensation for release by Xtract, of Santos from certain funding obligations under the Farm-in Subscription Agreement Xtract will receive compensation in line with the current asset value of the investment, after recording an impairment of £106,000.

Income Tax
Income tax liabilities of £2.95 million outstanding at 31 December 2010 relating to Australian capital gains tax payable on previous investment disposals, as well as UK corporation tax on the disposal profits not covered by Australian double taxation credits were paid in full.

Cash position
The Group's net cash position was £4.49 million with no borrowings outstanding at 31 December 2011. (31 December 2010: £8.77 million with no borrowings outstanding)

Share Capital
In the first quarter of 2011, 60 million warrants were exercised at 2.5p raising £1.5 million and increasing the share capital to 914,965,026 ordinary shares in issue.

In addition to the 350,245,343 shares issued in the acquisition of the outstanding non-controlling interest in Elko Energy Inc mentioned above, a placing at the point of re-admission raised £3 million before expenses and increased the share capital by 250,000,000 ordinary shares inclusive of shares issued in lieu of a brokerage fee payment. At the point of re-admission 1,515,210,369 ordinary shares were in issue.

In November 2011 Xtract made its first drawdown on the Equity line facility issuing 17,647,059 ordinary shares at 1.7p raising £0.3 million before expenses.

Going Concern
The Group is not currently generating revenues from its operations. Subsequent to the year end, a significant portion (approximately £2.78 million) of its existing cash balances were used in respect of the Luna prospect (see Note 29) and forecasts and projections show that it would not have sufficient cash to make further investments in its existing and new projects in line with the Group's strategy, nor to settle its current liabilities when due and meet its ongoing overheads for the next twelve months without gaining access to additional funds. The Group continues to manage its investments as a portfolio, seeking to dispose of investments, bring in strategic partners and raise funds as appropriate to finance its obligations and to fund new investments. Management believes that it will be able to manage the Group's funding requirements through a combination of these measures.

The Directors have concluded that the requirement for additional, as yet uncommitted, funding during the next twelve months represents a material uncertainty that casts significant doubt upon the Group's and the Company's ability to continue as a going concern and that, therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless after making enquiries, and considering the uncertainties above, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors' Report

The Directors present their report on the affairs of the Group, together with the financial statements and auditors' report, for the year ended 31 December 2011. The Corporate Governance Statement is set out on page 18 and forms part of this report.

Principal activities and business review
Xtract Energy Plc is a company involved in the exploration for oil and gas accumulations. Xtract's area of focus is primarily the North Sea but other areas of mainland Europe are not excluded from consideration. The rationale is to finance early stage asset exploration, business development activity and the asset development phase or if appropriate crystalise value for shareholders at a suitable exit point. We aim to maximise returns for our shareholders through realising the significant upside rewards associated with our investments.

The Directors evaluate new exploration and appraisal opportunities continually, including businesses and projects in conventional and non-conventional fields such as oil shale.

The Company is required by the Companies Act to include a business review in this report. The information that fulfils the requirements of the business review can be found within the CEO's Review and the Financial Review on pages 5 to 11 which are incorporated in this report by reference.

Details of significant events since the balance sheet date are contained in note 29 to the financial statements.

Results and dividends
The net loss for the Group for the year ended 31 December 2011 amounts to £4,314,000 (6 month period ended 31 December 2010: Loss of £1,394,000).

No dividends were paid or proposed by the Directors in either the current or previous periods.

Performance
The key indication of performance of the Group is the extent of its success in identifying, acquiring, progressing and divesting investments in projects so as to build shareholder value. At this stage in its development, the Group's performance is not readily measured using quantitative key performance indicators, however, a qualitative summary of performance in the period is provided in the Chairman's Statement and CEO's Review.

Capital structure
Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 22. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Articles of Association and the Corporate Governance Statement on page 18.

Under its Articles of Association, the Company had authority to issue up to 2,000,000,000 ordinary shares. Pursuant to the Companies Act 2006 and with effect from 1 October 2009, the requirement for a company to have an authorised share capital has been abolished and the new Articles which the Company adopted at the 2009 AGM reflect this. The Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006.

Directors
The Directors, who served throughout the year except as noted, were as follows:

John Newton was appointed on 10 March 2006 and Mark Nichols on 15 January 2008, both stepped down from the board on 1 July 2011. Dr George Watkins was appointed as Non-Executive Chairman effective 1 July 2011 and Jeremy Kane was appointed as Non-Executive Director on 12 September 2011.

Dr. George Watkins, aged 68, Non-Executive Chairman (Audit, Nominations and Remuneration Committee Member)
Dr. Watkins CBE (Chairman) holds a BSc in Mining, a PhD in Geophysics and an MSc in Management. He also holds an honorary degree of Doctor of Engineering Deng from Heriot Watt University. He joined the Conoco Group in 1973 and retired as Chairman and MD of ConocoPhillips (UK) Ltd in 2002. He has served as a non-executive director of the Abbot Group plc, Paladin Resources plc, Production Services Network (PSN) Ltd and on the Defence Procurement Agency. He is a Governor of Robert Gordon University.

Peter Moir, aged 58, Chief Executive Officer
Mr Moir's qualifications include BSc Civil Engineering and MEng Petroleum Engineering. He is a Chartered Engineer in the UK and has more than 30 years experience in technical, operational and commercial aspects of the Exploration and Production business.

Alan Hume, aged 53, Group Finance Director
Mr Hume is a Fellow of the Chartered Institute of Management Accountants (FCMA) with over 20 years senior level finance and commercial experience. He has significant international exposure and experience having held senior finance and commercial positions in Norway, South Africa and the Middle East. He is well acquainted with the needs of both start-up companies and established international oil and gas service organisations.

Paul Butcher, aged 53, Non-Executive Director (Audit, Nominations and Remuneration Committee Member)
Mr Butcher holds a BSc in Earth Sciences, an MSc in Marine Geology and Geophysics and an MBA. Much of his career was spent at BP and Amoco where he spent 25 years, leading to a variety of senior strategic and operational leadership positions within the upstream business.

Jeremy Kane, aged 71, Non-Executive Director (Audit, Nominations and Remuneration Committee Member)
Mr Kane has over 40 years business experience in marketing communications and public affairs in addition to experience in human resource management. He is the founder of European Public Policy Advisers, Ergo Communications and Landmark Europe, and is the President of Hillgate Communications.

Directors' remuneration
The Company remunerates the directors at a level commensurate with the size of the Company and the experience of its directors. During the year, the Remuneration Committee consisted of (1 Jan 2011-1 July 2011) Mark Nichols, Paul Butcher and John Newton, (2 July 2011- 11 September 2011) George Watkins and Paul Butcher, and (12 September 2011 - 31 December 2011) George Watkins, Paul Butcher and Jeremy Kane. They have reviewed the directors' remuneration and believe it upholds the objectives of the Company.

The remuneration paid to the directors of the Company for the year ended 31 December 2011 was £767,000 (six months ended 31 December 2010 £469,000). The remuneration consisted of director's fees of £465,000, director's bonuses of £259,000, £11,000 of pension contributions, £5,000 of medical insurance for Alan Hume and a £5,000 car allowance for Peter Moir. John Newton received compensation for loss of office of £22,000. The remuneration for the highest paid director for the year ended 31 December 2011 was £368,000 (6 month period ended 31 December 2010 £182,500).

Director	Annual salary for the year to 31 December 2012	Salary for the year to 31 December 2011
Peter Moir	215,000	198,333
Alan Hume	175,000	151,666
George Watkins	70,000	37,727
Paul Butcher	42,500	30,324
Jeremy Kane	44,500	13,484
John Newton	-	21,923
Mark Nichols	-	12,051

As at the date of this Director's report, there has been no change in the fees set out above. In addition, the directors hold share options as set out below.
Director's interests
The directors who held office at 31 December 2011 have the following interests in the Company:

	31 December 2011		31 December 2010	
	Ordinary shares	Options	Ordinary shares	Options
Peter Moir	8,000,000	50,782,500	-	15,200,000
Alan Hume	8,000,000	34,562,500	-	11,200,000
George Watkins	1,600,000	-	-	-
Paul Butcher	257,506	-	-	-
Jeremy Kane	8,862,300	4,235,000	-	-

On 13 September 2011 the Company acquired the outstanding non-controlling interest in its subsidiary Elko Energy Inc. Replacement share options were issued to Elko Energy Inc option holders on the basis of seven Xtract Energy Plc share options for each share option held. The table below sets out the interests of the directors in the subsidiary Elko Energy Inc at 31 December 2010 and the number of replacement share options in the Company. The replacement share options are included in the options held in the Company at 31 December 2011 in the table above.

	13 September 2011		31 December 2010	
	Ordinary shares	Xtract Energy Plc Options	Ordinary shares	Elko Energy Inc Options
Peter Moir	-	24,832,500	-	3,547,500
Alan Hume	-	14,612,500	-	2,087,500
George Watkins	-	-	-	-
Paul Butcher	-	-	-	-
Jeremy Kane	-	4,235,000	-	605,000

No director held any interest in any other of the Company's subsidiaries at the beginning (or if later, the date of their appointment) or the end of the year.

Further details of the share options and warrants in the Company can be found in note 26 of the Financial Statements.

Directors' indemnities
The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and these remain in force at the date of this report.

Directors' service contracts

Directors' contracts are continuous unless terminated and continue until terminated by either party upon one months' notice (twelve months' notice for Peter Moir and six months' notice for Alan Hume). In accordance with the Company's Articles, at forthcoming Annual General Meetings at least one third of the directors are required to resign by rotation.

Supplier payment policy
The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of the transaction, and to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Group at 31 December 2011 were equivalent to 24 days' purchases (31 December 2010: 30), based on the average daily amount invoiced by suppliers during the year.

Charitable and political donations
No political contributions or donations for political purposes or charitable donations were made during the year.

Substantial shareholdings As at 1 May 2012 the Company has been notified or is aware of the following significant holdings (over 3%) of voting rights in its shares:

Name of holder	No. of ordinary shares	% of voting rights and issued capital
Cambrian Investment Holdings Limited	340,256,048	21.99
TD Direct Investing Nominees (Europe) Limited	126,066,261	8.15
Barclayshare Nominees Limited	112,065,976	7.24
Investor Nominees Limited	74,937,180	4.84
HSDL Nominees Limited	72,654,791	4.70
Morstan Nominees Limited	63,096,100	4.08
L R Nominees Limited	61,168,148	3.95

Cambrian Investment Holdings Limited is a wholly owned subsidiary of Walter Energy Inc which is headquartered in Florida, USA and is listed on NYSE and TSX.

Environmental responsibility
The Company recognises that the Group's exploration and development activities require it to have regard to the potential impact that it and its subsidiary companies may have on the environment. Wherever possible, the Company ensures that all related companies are encouraged to comply with the local regulatory requirements with regard to the environment.

Risks and uncertainties
The principal risks facing the Company are set out below. Risk assessment and evaluation is an essential part of the Group's planning and an important aspect of the Group's internal control system.

General and economic risks:
- Contractions in the world economies or increases in the rate of inflation resulting from international conditions; movements in the equity and share markets in the United Kingdom and throughout the world;
- Movements in global equity and share markets and changes in market sentiment towards the resource industry;
- Currency exchange rate fluctuations and, in particular, the relative prices of the Australian dollar, US dollar, Danish Krone and the UK Pound;
- Adverse changes in factors affecting the success of exploration and development operations, such as increases in expenses, changes in government policy and further regulation of the industry; unforeseen major failure, breakdowns or repairs required to key items of plant and equipment resulting in significant delays, notwithstanding regular programs of repair, maintenance and upkeep; and unforeseen adverse geological factors or prolonged weather conditions.

Funding risk:
- Xtract Energy may not be able to raise, either by debt or further equity, sufficient funds to enable completion of planned exploration, investment and/or development projects.

Commodity risk:
- Commodities are subject to high levels of volatility in price and demand. The price of commodities depends on a wide range of factors, most of which are outside the control of the Company. Production costs depend on a wide range of factors, including commodity prices, capital and operating costs in relation to any operational site.

Exploration and development risks:
- Exploration and development activity is subject to numerous risks, including failure to achieve estimated mineral resource, recovery and production rates and capital and operating costs.
- Success in identifying economically recoverable reserves can never be guaranteed. The Company also cannot guarantee that the companies in which it has invested will be able to obtain the necessary permits and approvals required for development of their projects.
- Some of the countries in which the Company operates have native title law which could affect exploration activities. The companies in which the Company has an interest may be required to undertake clean-up programmes resulting from any contamination from their operations or to participate in site rehabilitation programmes which may vary from country-to-country. The Group's policy is to follow all necessary laws and regulations and it is not aware of any present material issues in this regard.

Internal controls
The Board recognises the importance of both financial and non-financial controls and has reviewed the Company's control environment and identified any related shortfalls during the year. The Company has undergone, and continues to undergo, significant expansion and development which requires commensurate and ongoing development in the Company's financial reporting procedures and internal controls. Whilst they are aware that no system can provide absolute assurance against material misstatement or loss, continuing reviews of internal controls will be undertaken to ensure that these controls are implemented, they are adequate and that they operate effectively.

Relations with shareholders
The Board is committed to providing effective communication with the shareholders of the Company, with significant developments disseminated through stock exchange announcements. The Board regards the annual general meeting as a forum for communication between the Company and its shareholders and encourages their participation in its agenda.

Going concern
A review of the Group's going concern position is included in the Financial Review on page 10 and in note 3.

General meeting
The Company will hold a general meeting by the end of June 2012 to lay the annual accounts before the shareholders and to deal with any other business for the consideration of the shareholders. The Company will distribute due notice of the meeting with full details of the business to be considered at that meeting.

Auditors
Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

· so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
· the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as the auditors and a resolution to reappoint them will be proposed at the next Annual General Meeting of the Company.

By Order of the Board
Dated: 4 May 2012

Peter Moir
Chief Executive Officer

Corporate Governance Statement

The Board recognises the importance of sound corporate governance commensurate with the size of the Company and the interests of shareholders. The Company is not required to comply with the UK Corporate Governance code issued by the Financial Reporting Council. However as the Company grows, the Directors intend that it should develop policies and procedures which reflect the Code so far as is practicable, taking into account the size and nature of the Company.

The Board of Directors
During the year, there have been some changes in the composition of the Xtract board. These changes have been made to allow a more operationally experienced team to oversee development of the asset portfolio of the Company. The Board of Directors currently comprises five members, two executive directors and three non-executive directors, including the Non-Executive Chairman. The Directors have significant experience in the evaluation, acquisition and commercialisation of oil and gas resource projects and the management of such investments, quoted and unquoted, both in the UK and overseas.

Board meetings
The Board will meet as and when required and ordinarily meets every two months, to provide effective leadership and overall management of the Company's affairs through the schedule of matters reserved for its decision. This includes the approval of the budget and business plan, major capital expenditure, acquisitions and disposals, risk management policies and the approval of the financial statements. Formal agenda, papers and reports are sent to the Directors in a timely manner, prior to the Board Meetings. The Board delegates certain of its responsibilities to the board committees which have terms of reference as listed below.

All Directors have access to the advice of the Company Secretary who is responsible for ensuring that all Board procedures are followed. Any Director may take independent professional advice at the Company's expense in the furtherance of his duties.

Corporate governance practices
The Company has adopted a Share Dealing Code that applies to Directors, senior management and any employee who is in possession of 'inside information'. All such persons are prohibited from trading in the Company's securities if they are in possession of 'inside information'.

The Board has established a Remuneration Committee, Audit Committee and Nominations Committee. The Remuneration Committee is currently made up of George Watkins, Paul Butcher and Jeremy Kane and is responsible for reviewing the performance of the executive directors and for setting the framework and broad policy for scale and structure of their remuneration, taking into account all factors which it shall deem necessary. The Remuneration Committee will also determine allocations of share options and is responsible for setting any performance criteria in relation to the exercise of options granted under any share option schemes adopted by the Company. The Audit Committee comprises George Watkins, Paul Butcher and Jeremy Kane and monitors the integrity of the Company's annual and interim financial statements. The committee also monitors and reviews the effectiveness of the management and the external auditors on accounting and internal control matters and recommends the appointment of, and reviews the fees of, the external auditors. Having monitored Deloitte's independence, objectivity and performance in 2011 as in prior years since Deloitte's original appointment, with reference to frequent reports during the period from Deloitte covering, inter alia, their team and required audit partner rotation plans, the overall audit strategy and the progress and results of the audit, the committee decided it was in the Group's and shareowners' interests not to tender the external audit in 2012 and recommends the reappointment of Deloitte. The Nominations Committee is currently made up of George Watkins, Paul Butcher and Jeremy Kane and has responsibility for identifying, evaluating and recommending candidates to join the Board and making recommendations on Board composition and balance.

Statement of Directors' responsibilities
For the year ended 31 December 2011
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

§ properly select and apply accounting policies;
§ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
§ provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
§ make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of 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 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement
We confirm that to the best of our knowledge:
§ the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
§ the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board
Chief Executive Officer

Peter Moir
4 May 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XTRACT ENERGY PLC

We have audited the financial statements of Xtract Energy plc for the year ended 31 December 2011 which comprise the group Income Statement, the group and parent company Statements of Comprehensive Income, the group and parent company Statements of Financial Position, the group and parent company Statements of Changes in Equity, the group and parent company Cash Flow Statements, and the related notes 1 to 29. 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 explained more fully in the Directors' Responsibilities Statement, 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of 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 disclosure made in note 3 to the financial statements concerning the company's and group's ability to continue as a going concern. These conditions identify that the company is reliant on gaining access to additional funding during the next twelve months in order to meet its ongoing overheads and fund its planned investment strategy. These conditions, along with other matters explained in note 3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's and group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company and group was unable to continue as a going concern.

Emphasis of matter - Recoverability of Intangible Assets
In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 13 to the financial statements regarding the unsuccessful results of drilling on the Luna prospect in Denmark subsequent to year end. Although the directors are continuing to evaluate the seismic data gathered from the well in order to assess whether there are other potential prospects on the license, the 2012 financial statements of the group will include the write off of £2.8 million of expenditure incurred on the Luna prospect which was capitalised within intangible assets at 31 December 2011, together with approximately £2.78 million of the Group's cash balance at that date which was utilised in the 2012 drilling campaign. After reversing related deferred tax liabilities of £0.493 million, the resulting impairment charge of £5.087 million will represent approximately 61% of the Group's net assets at 31 December 2011. In addition, the parent company balance sheet at 31 December 2011 includes a significant investment relating to the Danish operations which, depending on the outcome of the seismic data evaluation referred to above, may need to be written off during 2012.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

David Paterson (Senior statutory auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom
4 May 2012

Xtract Energy plc
Financial Statements
For the year ended 31 December 2011

Registered number: 5267047
Xtract Energy plc
Consolidated income statement
For the year ended 31 December 2011

	Note	Year ended 31 December 2011 £'000	6month period ended 31 December 2010 £'000
Administrative and operating expenses		(4,174)	(1,949)
Share of results of associates	17	(12)	(39)
Impairment of held-for-sale asset	17	(106)	-
Share of results and impairment of joint venture	16	-	(2,249)
Operating loss		(4,292)	(4,237)
Investment revenue	5	38	42
Finance (costs) / income	10	(407)	1,157
Other gains	5	242	1,159
Loss before tax		(4,419)	(1,879)
Tax credit	11	105	485
Loss for the year / period	7	(4,314)	(1,394)
Attributable to:			
Equity holders of the parent		(3,949)	(1,528)
Non controlling interest		(365)	134
		(4,314)	(1,394)
Net loss per share			
Basic (pence)	12	(0.36)	(0.18)
Diluted (pence)	12	(0.36)	(0.18)

Xtract Energy plc

Consolidated and Company statements of comprehensive income
For the year ended 31 December 2011

	Group		Company	
	year ended 31 December 2011 £'000	6month period ended 31 December 2010 £'000	year ended 31 December 2011 £'000	6month period ended 31 December 2010 £'000

Loss for the year / period	(4,314)	(1,394)	(5,478)	(1,750)
(Losses) / gains on revaluation of available-for-sale investment taken to equity	(48)	306	(48)	306
Exchange differences on translation of foreign operations	(92)	(735)	-	-
Transferred to the income statement on sale of available-for-sale investment	141	-	141	-
Transferred to the income statement on sale of Investment in joint venture	(324)	-	-	-
Other comprehensive (loss) / gain for the year / period	(323)	(429)	93	306
Total comprehensive loss for the year / period	(4,637)	(1,823)	(5,385)	(1,444)
Attributable to:				
Equity holders of the parent	(4,382)	(2,065)	(5,385)	(1,444)
Non controlling interest	(255)	242	-	-
	(4,637)	(1,823)	(5,385)	(1,444)

Xtract Energy plc

Consolidated and Company statements of financial position

As at 31 December 2011

	Note	Group		Company	
		As at 31 December 2011 £'000	As at 31 December 2010 £'000	As at 31 December 2011 £'000	As at 31 December 2010 £'000
Non-current assets					
Intangible assets	13	2,805	2,047	-	-
Property, plant and equipment	14	3	4	-	3
Investment in associate	17	-	400	-	-
Investment in joint venture	16	-	65	-	65
Investment in subsidiaries	15	-	-	17,878	13,641
Financial assets available-for-sale	18	-	497	-	497
Deferred consideration receivable	17	-	291	-	-
		2,808	3,304	17,878	14,206
Current assets					
Trade and other receivables	19	1,472	237	129	119
Cash and cash equivalents	24	4,488	8,766	425	1,346
Asset held- for-sale	17	553	-	-	-
		6,513	9,003	554	1,465
Total assets		9,321	12,307	18,432	15,671
Current liabilities					
Trade and other payables	21	395	556	197	304
Current tax liabilities	21	68	2,951	-	2,138
Amounts due to subsidiaries	21	-	-	9,870	10,258
		463	3,507	10,067	12,700
Net current assets/(liabilities)		6,050	5,496	(9,513)	(11,235)
Non-current liabilities					
Deferred tax liabilities	20	493	471	-	-
Total liabilities		956	3,978	10,067	12,700
Net assets		8,365	8,329	8,365	2,971

Consolidated and Company statements of financial position (continued)

As at 31 December 2011

	Note	Group		Company	
		As at December	As at December	As at December	As at December

		31 2011 £'000	31 2010 £'000	31 2011 £'000	31 2010 £'000
Equity					
Share capital	22	1,533	855	1,533	855
Share premium account		35,300	26,006	35,300	26,006
Warrant reserve		-	538	-	538
Share-based payments reserve	23	1,202	564	1,202	429
Available-for-sale reserve	23	-	(93)	-	(93)
Foreign currency translation reserve	23	663	861	-	-
Accumulated losses		(30,333)	(24,757)	(29,670)	(24,764)
Equity attributable to equity holders of the parent		8,365	3,974	8,365	2,971
Non-controlling interest		-	4,355	-	-
Total equity		8,365	8,329	8,365	2,971

The financial statements of Xtract Energy plc, registered number 5267047, were approved by the board of directors and authorised for issue on 4 May 2012. They were signed on its behalf by:

Alan Hume
Director
Xtract Energy plc

Consolidated and Company statements of changes in equity
Group

	Note	Share Capital	Share premium account	Warrant reserve	Share based payments reserve	Available-for-sale investments reserve	Forei curre trans reser
		£'000	£'000	£'000	£'000	£'000	£'000
At 30 June 2010		855	26, 006	538	823	(399)	1,704
Gain on revaluation of available-for-sale investments		-	-	-	-	306	-
Share based payment expense		-	-	-	301	-	-
Other equity movements		-	-	-	(560)	-	-
Loss for the period		-	-	-	-	-	-
Foreign currency translation differences		-	-	-	-	-	(843)
As at 31 December 2010		855	26,006	538	564	(93)	861
Exercise of warrants		60	1,440	(538)	-	-	-
Deemed disposal of subsidiary		-	-	-	-	-	-
Loss for the year		-	-	-	-	-	-
Foreign currency translation differences		-	-	-	-	-	(202)
Issue of shares to acquire outstanding non-controlling interest	15	350	4,973	-	135	-	328
Replacement share options issued to Elko Energy Inc shareholders	26	-	-	-	525	-	-
New issue of shares on re-admission to AIM		240	2,760	-	-	-	-
Cost of placing		-	(144)	-	-	-	-
Brokerage fee of £125,000 on share placement (settled in shares)		10	(10)	-	-	-	-
Shares issued on first exercise of stand-by equity distribution agreement ('SEDA')	22	18	282	-	-	-	-
Cost of SEDA exercise		-	(7)	-	-	-	-
Revaluation of available-for-sale investments	18	-	-	-	-	(48)	-
Income statement transfer on disposal of available-for-sale investments	18	-	-	-	-	141	-
Income statement transfer on disposal of joint venture		-	-	-	-	-	(324)
Expiry of share options		-	-	-	(34)	-	-
Share based payment expense		-	-	-	12	-	-
As at 31 December 2011		1,533	35,300	-	1,202	-	663

Xtract Energy plc
Consolidated and Company statements of changes in equity
Company

	Note	Share capital	Share premium account	Warrant reserve	Share based payments reserve	Availa for sal reserv
		£'000	£'000	£'000	£'000	£'000

At 30 June 2010		855	26,006	538	823	(399)
Issue of warrants		-	-	-	166	-
Expiry of warrants		-	-	-	(560)	
Gain on revaluation of available-for-sale investments		-	-	-	-	306
Loss for the period		-	-	-	-	-
At 31 December 2010		855	26,006	538	429	(93)
Exercise of warrants		60	1,440	(538)	-	-
Issue of shares to acquire non-controlling interest in subsidiary	15	350	4,973	-	-	-
New issue of shares on re-admission to AIM		240	2,760	-	-	-
Cost of placing		-	(144)	-	-	-
Brokerage fee of £125,000 on share placement (settled in shares)		10	(10)	-	-	-
Shares issued on first exercise of stand-by equity drawdown agreement	22	18	282	-	-	-
Cost of SEDA exercise		-	(7)	-	-	-
Replacement share options issued to shareholders of Elko Energy Inc	26	-	-	-	795	-
Share based payment expense		-	-	-	12	-
Expiry of share options		-	-	-	(34)	-
Revaluation of available-for-sale investments	18	-	-	-	-	(48)
Income statement transfer on disposal of available-for-sale-investments	18	-	-	-	-	141
Loss for the year		-	-	-	-	-
At 31 December 2011		1,533	35,300	-	1,202	-

Xtract Energy plc
Consolidated and Company cash flow statements
For the year ended 31 December 2011

	Note	Group		Company	
		Year ended 31 December 2011 £'000	6month period ended 31 December 2010 £'000	Year ended 31 December 2011 £'000	6month period ended 31 December 2010 £'000
Net cash used in operating activities	24	(7,091)	(1,652)	(5,070)	(575)
Investing activities					
Interest received	5	38	42	9	35
Acquisition of intangible assets		(2,642)	(25)	-	-
Proceeds from disposal of intangible assets	13	635	3,612	-	-
Purchase of property plant and equipment	14	(3)	-	-	-
Disposal of available-for-sale investments	18	449	-	449	-
Disposal of joint venture	16	60	-	-	-
Net cash (used in) / from investing activities		(1,463)	3,629	458	35
Financing activities					
Proceeds on issue of shares and warrants		4,356	-	4,356	-
Proceeds on exercise of SEDA		293	-	293	-
Loans to subsidiaries		-	-	(715)	-
SEDA arrangement fee		(250)	-	(250)	
Loans to subsidiaries written off		-	-	(84)	(80)
Loans from subsidiaries		-	-	75	2
Net cash from financing activities		4,399	-	3,675	(78)
Net (decrease)/ increase in cash and cash equivalents		(4,155)	1,977	(937)	(618)
Cash and cash equivalents at beginning of year		8,766	6,869	1,346	1,964
Effect of foreign exchange rate changes		(123)	(80)	16	-

Cash and cash equivalents at end of year	4,488	8,766	425	1,346

Xtract Energy plc
Notes to the consolidated financial statements
For the year ended 31 December 2011

1. General information
Xtract Energy plc is a company incorporated in Great Britain under the Companies Act 2006. The address of the registered office is 27/28 Eastcastle Street, London, W1W 8DH. The nature of the Group's operations and its principal activities are set out in the operating and financial review on pages 5 to 11.

These financial statements are presented in Pound Sterling. Foreign operations are included in accordance with the policies set out in note 3.

2. Adoption of new and revised Standards
In the current year a number of new and revised standards and interpretations were adopted by the Group, including amendments to IFRS 3 ('Business Combinations'), IFRS 7 ('Financial Instruments: Disclosures') and IAS 24 ('Related Party Disclosures'). None of these had any material impact on the financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IRFS 1 (amended)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
IFRS 7 (amended)	Disclosures - Transfers of Financial Assets
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
IAS 12 (amended)	Deferred Tax: Recovery of Underlying Assets
IAS 19 (revised)	Employee Benefits
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

3. Significant accounting policies
Basis of accounting
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulations.

The financial statements have been prepared under the historical cost convention modified for certain items carried at fair value, as stated in the accounting policies. The principal accounting policies adopted are set out below.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries). These consolidated financial statements are made up for the year ended 31 December 2011. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where
necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and their share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of the non-controlling party's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Parent only income statement
Xtract Energy plc has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The loss for the year ended 31 December 2011 was £5,478,000 (6 month period ended 31 December 2010: loss £1,750,000).

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 3 to 4 and in the CEO's Review on pages 5 to 9. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review on pages 10 to 11. In addition, note 27 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk.

The Group is not currently generating revenues from its operations. Subsequent to the year end, a significant portion (approximately £2.78 million) of its existing cash balances were used in respect of the Luna prospect (see Note 29) and forecasts and projections show that it would not have sufficient cash to make further investments in its existing and new projects in line with the Group's strategy, nor to settle its current liabilities when due and meet its ongoing overheads for the next twelve months without gaining access to additional funds. The Group continues to manage its investments as a portfolio, seeking to dispose of investments, bring in strategic partners and raise funds as appropriate to finance its obligations and to fund new investments. Management believes that it will be able to manage the Group's funding requirements through a combination of these measures.

The Directors have concluded that the requirement for additional, as yet uncommitted, funding during the next twelve months represents a material uncertainty that casts significant doubt upon the Group's and the Company's ability to continue as a going concern and that, therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless after making enquiries, and considering the uncertainties above, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.
Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

· deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
· liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payment*; and
· assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

Investment in associates
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Joint ventures

Jointly controlled entities

A jointly controlled entity involves the establishment of a separate legal entity in the form of a partnership, corporation or other entity. The entity controls the assets of the joint venture, incurs liabilities and expenses, and earns income. It maintains its own accounting records, enters into contracts in its own name and, generally, has an existence of the venturers, including the preparation of financial statements. The Group accounts for jointly controlled entities using the equity method as discussed above, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations*

Non-current assets held-for-sale

Non-current assets (and disposal groups) classified as held-for-sale are measured at lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Foreign currencies

The individual financial statements of each Group company are maintained in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Pounds Sterling, which is the functional currency of the Company, and the presentational currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interest as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as sterling denominated assets and liabilities.

Government grants

Government grants towards research and development costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

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

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts 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
generally 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 that 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment and intangible assets

Oil and gas properties and leases
The costs of oil and gas properties and leases include the cost of acquiring and developing oil and gas properties and leases, together with any costs reclassified from intangible exploration and evaluation. Oil and gas properties and leases are amortised from the commencement of production in proportion to the ratio of production in the year to remaining reserves as at the start of the year. There were no amounts capitalised in respect of this category at either 31 December 2011 or December 2010.

Intangible exploration and evaluation expenditure assets

The costs of exploration properties and leases, which include the cost of acquiring prospective properties and exploration rights, are capitalised as intangible assets. Exploration and evaluation expenditure is capitalised
within exploration and evaluation properties until such time that the activities have reached a stage which permits a reasonable assessment of the existence of commercially exploitable reserves when they are
transferred to oil and gas properties and leases. Capitalised exploration and evaluation expenditure is assessed for impairment in accordance with the indicators of impairment as set out in IFRS 6 Exploration for and Evaluation of Mineral Reserves. In circumstances where a property is abandoned, the cumulative capitalised costs relating to the property are written off in the year.

Other Property, Plant and Equipment
Other tangible fixed assets represent office and computer equipment and are recorded at cost, net of accumulated depreciation. Depreciation is provided on all such tangible fixed assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life or the life of the relevant licence, whichever is less, as follows:

Average life in years	
Office and computer equipment	3-5
Plant and machinery	7-20

Until they are brought into use, fixed assets and equipment to be installed are included within assets under construction.

The cost of maintenance, repairs and replacement of minor items of tangible fixed assets are charged to the income statement as incurred. Renewals and asset improvements are capitalised. Upon sale or retirement of tangible fixed assets, the cost and related accumulated depreciation are eliminated from the financial statements. Any resulting gains or losses are included in the income statement.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised
for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available-for-sale financial assets ('AFS')

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in the foreign currency and translated at the spot rate at the balance sheet date. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity instruments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in the national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss to the extent that
the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

De-recognition of financial assets
The Group de-recognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks or rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset, and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks
and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset, and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of contractual arrangements.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial instruments'.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flow payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial liabilities
The Group de-recognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Share-based payments
Equity-settled share-based payments to certain directors, employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 26.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

4. Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgements that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment of intangible assets and investments
The assessment of intangible assets for any indications of impairment involves judgement. If an indication of impairment, as defined in IFRS 6 or IAS 36 as appropriate, exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use. The calculation of recoverable amount requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. 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.

Share-based payments
The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Group has made estimates as to
the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the Group is the Black-Scholes model.

5. Investment revenue and other gains and losses
An analysis of the Group's investment revenue and other gains and losses is as follows:

Group

	Year ended 31 December 2011 £'000	6m period ended 31 December 2010 £'000
Investment revenue		
Interest on bank deposits	38	42
Other gains and losses		
Transfer of foreign currency translation reserve on disposal of joint venture	324	-
Disposal of intangible asset	-	1,119
Loss on disposal of available-for-sale assets (see note 18)	(141)	-
Other income	59	7
Research and development grants *	-	33
Total other gains	242	1,159

***Government grants received in relation to research and development expenditure on oil shale extraction technologies in Australia.**

6. Segmental Analysis

For management purposes, the Group is currently organised into operating divisions - oil & gas exploration, evaluation and development, and oil shale exploitation. These divisions are the basis on which the Group reports its primary segment information to its Chief Executive to allocate resources to the segments and to assess their performance.

Principal activities are as follows:

- oil & gas exploration, evaluation and development - of the Group's interests in Turkey, the Netherlands and Denmark;
- oil shale exploitation - of the Group's interests in Queensland, Australia and Tarfaya, Morocco; and
- investment and other - in various listed resource companies including held-for-sale assets.

Segment information is presented below:

Year ended 31 December 2011

	Oil & Gas exploration and production £'000	Oil shale exploitation £'000	Investment and other £'000	Consolidated £'000
Administrative and operating expenses	(1,075)	(126)	(2,973)	(4,174)
Share of results of associates	(12)	-	-	(12)
Impairment of assets held-for-sale	(106)			(106)
Segment result	(1,193)	(126)	(2,973)	(4,292)
Investment revenue	27	1	10	38
Finance costs	(103)	-	(304)	(407)
Other gains and losses	383	-	(141)	242
Loss before tax	(886)	(125)	(3,408)	(4,419)
Tax credit				105
Loss for the period				(4,314)

6. Segmental Analysis (continued)

At 31 December 2011

Oil & Gas exploration and production £'000	Oil shale exploitation £'000	Investment and other £'000	Consolidated £'000

Capital additions - property, plant and equipment	3	-	-	3
Depreciation and amortisation	3	-	2	5
Balance sheet				
Assets				
Intangible assets	2,805	-	-	2,805
Property, plant and equipment	3	-	-	3
Financial assets	5,243	62	655	5,960
Asset held-for-sale	-	-	553	553
Consolidated total assets				9,321
Liabilities				
Financial liabilities	(53)	(31)	(379)	(463)
Deferred tax liability	(493)	-	-	(493)
Consolidated total liabilities				(956)

6. Segmental Analysis (continued)
6 month period ended 31 December 2010

	Oil & Gas exploration and production £'000	Oil shale exploitation £'000	Investment and other £'000	Consolidated £'000
Administrative and operating expenses	(1,207)	(93)	(649)	(1,949)
Share of results of associates	(39)	-	-	(39)
Share of results of joint venture (a)	(2,249)	-	-	(2,249)
Segment result	(3,495)	(93)	(649)	(4,237)
Investment revenue	6	1	35	42
Finance costs	390	-	767	1,157
Other gains and losses	1,126	33	-	1,159
(Loss) / profit before tax	(1,973)	(59)	153	(1,879)
Tax credit				485
Loss for the period				(1,394)

(a) Includes an impairment charge of £2,165,000 as discussed in note 16

6. Segmental Analysis (continued)

Business segments (continued)
At 31 December 2010

	Oil & Gas exploration and production £'000	Oil shale exploitation £'000	Investment and other £'000	Consolidated £'000
Depreciation and amortisation	2	-	2	4
Balance sheet				
Assets				
Intangible assets	2,047	-	-	2,047
Property, plant and equipment	1	-	3	4
Interests in associates	400	-	-	400
Interest in joint venture	65	-	-	65
Financial assets	7,927	94	1,479	9,500

Deferred consideration	291	-	-	291
Consolidated total assets				12,307
Liabilities				
Financial liabilities	(246)	(2)	(3,259)	(3,507)
Deferred tax liability	-	-	(471)	(471)
Consolidated total liabilities				(3,978)

Geographical information
The Group's operations are located in Europe, Central Asia and Australia.

The following table provides information about the Group's segment assets by geographical location:

	Year ended 31 December 2011 £'000	6m period ended 31 December 2010 £'000
Europe	8,706	11,813
Central Asia	553	400
Australia	62	94
	9,321	12,307

7. Loss for the year
Loss for the year has been arrived at after charging:

	Note	Year ended 31 December 2011 £'000	6month period ended 31 December 2010 £'000
Research and development costs		68	10
Costs relating to acquisition of non-controlling interest in Elko Energy Inc and the re-admission to AIM		1,772	-
Depreciation of property, plant and equipment	14	4	4
Amortisation of intangibles	13	1	1
Share-based payments expense	26	12	430
Staff costs	9	972	620

8. Auditor's remuneration
The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2011 £'000	6month period ended 31 December 2010 £'000
Fees payable to the Company's auditors and their associates for the audit of the Group's annual accounts	60	62
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries pursuant to legislation	26	64
Total audit fees	86	126

Fees payable to the Group's auditors and its associates for other services:

- corporate finance services relating to the re-admission document	185	-
- other assurance services relating to interim reporting	8	9
Total non-audit fees	193	9
Total auditor's remuneration	279	135

Fees payable to Deloitte and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

9. Staff costs

The average monthly number of employees (including directors) was:

	Year ended 31 December 2011	6month period ended 31 December 2010
	No.	No.
Corporate	7	9
	£'000	£'000
Their aggregate remuneration comprised:		
Salaries and fees	855	400
Severance payments in respect of former director	-	172
Social security costs	106	40
Other pension costs	11	8
	972	620

Total remuneration for the highest paid Director in the year was £368,000 (6 month period ended 31 December 2010: £182,500).

10. Finance costs / (income)

	Year ended 31 December 2011 £'000	6month period ended 31 December 2010 £'000
Foreign exchange losses / (gains)	129	(836)
Interest on current tax payable / (receivable)	22	(321)
SEDA arrangement fee (note 22)	250	-
Bank Charges	6	-
	407	(1,157)

11. Tax

	Year ended 31 December 2011 £'000	6month period ended 31 December 2010 £'000
Corporation tax:		
Current year	-	75
Adjustments in respect of prior years	(105)	(560)
Total current tax	(105)	(485)
Deferred tax	-	-
	(105)	(485)

UK corporation tax is calculated at 26.5% (2010: 28%) of the estimated assessable loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The Group tax credit for the year can be reconciled to the loss per the income statement as follows:

	Year ended 31 December 2011 £'000	6month period ended 31 December 2010 £'000
Loss before tax	(4,419)	(1,879)
Tax at the UK corporation tax rate of 26.5% (2010: 28%)	(1,171)	(526)
Tax effect of expenses that are not deductible in determining taxable profit	578	631
Tax effect of utilisation of tax losses not previously recognised and other temporary differences	-	(55)
Tax effect of unrecognised tax losses carried forward	2,896	27
Difference in overseas tax rates	(269)	(2)
Tax effect of depreciation in excess of capital allowances	1	-
Tax effect of other temporary differences not recognised	(1,904)	-
Tax effect of timing differences	(131)	-
Adjustments in respect to prior years	(105)	(560)
Tax credit for the year	(105)	(485)

In the March 2011 Budget Statement a reduction in the main stream rate of corporation tax was announced. Effective 1 April 2011 the corporation tax rate reduced from 28% to 26% , further reducing by 1% per annum to 23% by 1 April 2014.The March 2012 Budget Statement announced a further reduction to 22% by 2014. These proposed further reductions have not yet been substantively enacted.

12. Loss per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 December 2011 £'000	6month period ended 31 December 2010 £'000
Loss for the purposes of basic and diluted earnings per share (EPS) being net loss for the year attributable to equity holders of the parent	(3,949)	(1,528)
	Number of shares	Number of shares
Weighted average number of ordinary shares for purposes of basic EPS	1,093,283,484	854,965,026
Effect of dilutive potential ordinary shares - options and warrants	-	-
Weighted average number of ordinary shares for purposes of diluted EPS	1,093,283,484	854,965,026

The outstanding options and warrants at 31 December 2011 and 31 December 2010 represent anti-dilutive potential Ordinary Shares with respect to earnings per share as the Group was loss making. Therefore basic and diluted earnings per share is the same for the current year and prior period.

13. Intangible assets - exploration and evaluation

Group	Total £'000
Cost	
At 30 June 2010	4,414
Additions	25
Disposals (a)	(2,438)
Effects of foreign currency translation	54
At 31 December 2010	2,055
Additions	1,373
Disposals (b)	(640)
Effects of foreign currency translation	21
At 31 December 2011	2,809
Amortisation	
At 30 June 2010	(7)
Charge in year	(1)
At 31 December 2010	(8)
Charge for the year	(1)

Disposals (a)	5
Effects of foreign currency translation	-
At 31 December 2011	(4)
Carrying amount	
At 31 December 2011	2,805
At 31 December 2010	2,047
At 30 June 2010	4,407

(a) In September 2010 an agreement was finalised under which Chevron purchased Elko Exploration BV's and Elko Energy BV's licences in Blocks P1 and P2 in the Netherlands. In consideration for their total interest in the Blocks, Elko will receive an overriding royalty up to 5% of the sales value from Chevron gas delivered into the Dutch National Transmission System and Chevron condensate delivered onshore. The transaction completed in December 2010 and Elko received Euro 4.3 million in cash from Chevron for past costs incurred, resulting in a pre-tax gain of £1.1m. No amounts have been recognised to date in respect of the over-riding royalty as there is insufficient certainty over the likelihood of future qualifying sales.

(b) In March 2011 all approvals and conditions pertaining to the Danish 02/05 licence farm in agreement with Noreco had been satisfied and the agreement closed on 23 March 2011. Noreco paid US$1.1 million cash (£635,000) for its share of past costs to acquire a 47% interest in licence 02/05.

The carrying value above of £2,805,000 all relates to the 33% interest in Licences 02/05 and 01/11 offshore Denmark that the Group holds through its wholly owned Danish subsidiary, Elko Energy A/S.

In February 2012 the Luna prospect on the 01/11 licence was spudded however no hydrocarbons were encountered and the decision to plug and abandon the well as a dry hole was made in March 2012. The associated capitalised costs at 31 December 2011 of £2.8 million, together with costs incurred subsequent to year end of approximately £2.78 million, will be written off in the Group's 2012 financial statements. The seismic data gathered from the well will now be used to re-evaluate the geological model of the 02/05 and 01/11 licences and once this activity is completed the licence partners will determine how best to proceed with the acreage. For further detail please refer to note 29 Post balance sheet events.

The Company holds no intangible assets.

14. Property, plant and equipment

Group	Plant and machinery £'000	Office and computer equipment £'000	Total £'000
At 1 July 2010	-	8	8
Depreciation charge for 6 month period	-	(4)	(4)
At 31 December 2010	-	4	4
Additions	-	3	3
Depreciation charge for the year	-	(4)	(4)
At 31 December 2011	-	3	3

Company	Office fixtures and fittings £'000	Office and computer equipment £'000	Total £'000
Cost			
At 1 July 2010	1	4	5
Depreciation charge for the 6 month period	(1)	(1)	(2)
At 31 December 2010	-	3	3
Depreciation charge for the year	-	(3)	(3)
At 31 December 2011	-	-	-

15. Subsidiaries

Investments in subsidiaries	Company £'000
At 30 June 2010	13,644
Write-off during the period	(3)
At 31 December 2010	13,641
Other	18

Additions (a)	6,119
Write-off during the year	(1,900)
At 31 December 2011	17,878

(a) Xtract Energy Plc, the Company issued shares to acquire the non-controlling interest in Elko Energy Inc in September 2011. Elko Energy Inc is held indirectly through its 100% subsidiary Xtract International Ltd. The issue of 350,245,343 shares at 1.52p increased the value of investment in subsidiaries by £5,323,729. All share options outstanding in Elko Energy Inc were replaced by options in Xtract Energy Plc. The capital contribution relating to the replacement share options increased the investment in subsidiaries by £795,015.

15. Subsidiaries (continued)

Details of the Company's subsidiaries at 31 December 2011 are as follows:

Name	Place of Incorporation and Operation	Date controlling interest acquired	Proportion of ownership & voting power held % Group	Parent	Principal Activity
Sermines de Mexico S.A. de C.V.	Mexico	08/08/2005	100	100	Mining exploration
Xtract Oil Limited	Australia	17/02/2006	100	100	Mining exploration and technology development
Xtract Technologies Limited	Australia	27/09/2005	100	-	Mining exploration and technology development
Julia Creek Petroleum Limited	Australia	22/09/2005	100	-	Mining exploration and technology development
Xtract International Limited	Great Britain	15/11/2006	100	100	Holding Company
Xtract Energy Spain SL	Spain	10/09/2009	100	100	Holding Company
Xtract Energy Holdings Limited	Great Britain	03/12/2007	100	100	Holding Company
Xtract Energy (Oil Shale) Morocco SA	Morocco	23/07/2008	70	-	Mining exploration
Elko Energy Inc	Canada	11/01/2010	100	-	Oil & Gas exploration and evaluation
Elko Energy International	Cayman Islands	11/01/2010	100	-	Holding Company
Elko MEA	Cayman Islands	11/01/2010	100	-	Holding Company
Elko Americas	Cayman Islands	11/01/2010	100	-	Holding Company
Elko Europe	Cayman Islands	11/01/2010	100	-	Holding Company
Elko (UK) Limited	Great Britain	11/01/2010	100	-	Holding Company
Elko Energy Business Services Ltd	Great Britain	11/01/2010	100	-	Administration services
Elko Energy A/S	Denmark	11/01/2010	100	-	Oil & Gas exploration and evaluation
RPK Finance & Holdings BV	The Netherlands	11/01/2010	100	-	Holding Company
Elko Energy BV	The Netherlands	11/01/2010	100	-	Oil & Gas exploration and evaluation
Elko Exploration BV	The Netherlands	11/01/2010	100	-	Oil & Gas exploration and evaluation

All of these subsidiaries have been consolidated for the period of ownership.

Investment in Elko Energy Inc

During 2010 Xtract International Ltd acquired a controlling interest in Elko Energy Inc. In September 2011 Xtract International Ltd acquired all of the issued share capital of Elko Energy Inc not already owned in exchange for Xtract Energy Plc shares on a basis of seven Xtract shares for each Elko share.

Immediately prior to the share-for-share transfer, Xtract International Ltd, a 100% subsidiary of Xtract Energy Plc, held 49.97% of the 100,010,049 Elko Energy Inc shares in issue. The deemed consideration to acquire the non-controlling interest in Elko Energy Inc was £5,323,727. The consideration was calculated using the opening share price of 1.52p on 13 September 2011, the date Xtract Energy was re-admitted to AIM. The transaction resulted in a loss of £1,675,000 which, in accordance with the Group's accounting policies, was recorded within equity.

16. Joint ventures

Details of the Group's joint venture Extrem Energy AS at 31 December 2011 are as follows:

	Group As at 31 December 2011 £'000	As at 31 December 2010 £'000	Company As at 31 December 2011 £'000	As at 31 December 2010 £'000
Opening balance	65	2,322	65	2,152
Share of joint venture losses	-	(83)	-	-
Exchange translation	(5)	(9)	(5)	-
Disposal of joint venture	(60)	-	-	-
Transfer balance to investments in subsidiaries	-	-	(60)	-
Impairment of investment in joint venture	-	(2,165)	-	(2,087)
Closing balance	-	65	-	65

Investment in Extrem Energy

At 31 December 2010 Xtract Energy Spain SL, a 100% subsidiary of Xtract Energy Plc, held 50% of Extrem Energy AS, a Turkish joint stock company. The remaining 50% of Extrem was owned by Merty Energy, Petroleum, Exploration, Education and Services Inc ("Merty") and individual members of the Yoldemir family.

In May 2011, the Group signed a Heads of Agreement with Merty Energy ("Merty") whereby Merty would acquire Xtract's 50% share ownership in Extrem in return for a completion payment of US$100,000, farm in success payments per licence, processing royalties and gross overriding royalty interest payments in consideration.

The directors considered that this transaction provided new and better information about the overall recoverable amount of the Extrem investment as at 31 December 2010, and accordingly an impairment test was required in the preparation of the 31 December 2010 financial statements. The carrying value of Extrem Energy AS was written down by £2,165,000 to £64,650 (USD$100,000) reflecting the firm cash consideration arising under the Heads of Agreement. The Group anticipates that further potential future consideration may arise however any such consideration is contingent and cannot be measured reliably.

The disposal of the joint venture Extrem Energy AS completed on 24 August 2011 when the US$100,000 (£60,000) completion payment was received by Xtract Energy Spain SL.

17. Associates

Details of the Group's associate Zhibek Resources Limited, at 31 December 2011, are as follows:

	Group		Company	
	As at 31 December 2011 £'000	As at 31 December 2010 £'000	As at 31 December 2011 £'000	As at 31 December 2010 £'000
Opening balance	400	445	-	-
Release of deferred consideration	73	6	-	-
Share of associates' losses for the year	(12)	(39)	-	-
Share of associates' foreign currency translation reserve	(20)	(12)	-	-
Transfer to assets held- for-sale	(441)	-	-	-
	-	400	-	-

Zhibek Resources Limited is an oil and gas exploration and production company which has a 72% interest in the close joint stock company, KNG Hydrocarbons which holds the Tash Kumyr exploration licence in the Kyrgyz Republic.

In October 2008 Xtract and Santos International Holdings Pty Ltd ('Santos') entered into a farm-in agreement in relation to Zhibek Resources Ltd, the Company's indirect wholly-owned subsidiary. Under the agreement Santos assumed operatorship and control of Zhibek and committed to funding up to US$8.5m of Zhibek's near-term exploration programme, including the seismic and drilling programme originally scheduled for 2008-2011, to earn the 75% interest.

The minimum excess funding to be provided by Santos over and above their percentage ownership interest on the estimated total near term exploration programme cost of US$10million was US$1million. This consideration was discounted at a rate of 15%, a rate deemed appropriate by the directors, over the estimated time required to complete the near term exploration programme. Accordingly the deferred consideration receivable for the transaction was calculated at £609,000 at 17 November 2008 and has been released as Santos has provided funding. At 31 December 2011 the value of the deferred consideration receivable was £218,000 (2010: £291,000).

Reclassification to asset held-for-sale

Following political unrest and the operator being unable to secure an appropriate rig at acceptable rates, Santos announced their intention to dispose of this interest. Subsequently the Company's directors decided, in the absence of a high profile and trusted partner, the risk profile of the project was no longer desirable to the Group and negotiated with Santos to dispose of their combined interests in one transaction.

As at 31 December 2011 based on the status of the disposal negotiations at that time, the directors expected Zhibek to be sold within 12 months and therefore the carrying value of Zhibek of £659,000, comprising the investment in associate (of £441,000) and the deferred consideration receivable (of £218,000), has been classified as an asset held-for-sale and is presented separately in the balance sheet.

In exchange for release by Xtract of Santos from certain funding obligations under the Farm-in Subscription Agreement, Santos will transfer to Xtract 140,000,000 shares in Caspian Oil and Gas Limited, an oil producer and explorer listed on the Australian Securities Exchange. At 31 December 2011 the 140,000,000 shares had a value of £553,000 and therefore the carrying value of £659,000 has been impaired by £106,000. The disposal agreement was signed off on 3 May 2012, see note 29

18. Investments

	Group		Company	
Available-for-sale investments	As at 31 December 2011 £'000	As at 31 December 2010 £'000	As at 31 December 2011 £'000	As at 31 December 2010 £'000
Opening balance	497	191	497	191
Movement in fair value	(48)	306	(48)	306
Disposed of during the year	(449)	-	(449)	-
	-	497	-	497

In July 2011 the Company sold its holding of 3,825,000 shares in Lochard Energy Group plc for proceeds of £449,000 realising a loss on disposal of £141,000.

19. Other financial assets

Trade and other receivables

	Group		Company	
	As at 31 December 2011 £'000	As at 31 December 2010 £'000	As at 31 December 2011 £'000	As at 31 December 2010 £'000
Other debtors	154	166	93	80
Prepayments	1,318	71	36	39
	1,472	237	129	119

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Prepayments at 31 December 2011 for the Group included £1,270,000 advance payment to the operator of the Group's Danish licence (2010: nil).

20. Deferred tax

The following are the major categories of deferred tax liabilities recognised by the Group and movements thereon during the current year and prior reporting period.

Group	Intangible assets £'000	Total £'000
As at 30 June 2010	(471)	(471)
As at 31 December 2010	(471)	(471)
Exchange translation	(22)	(22)
As at 31 December 2011	(493)	(493)

The Company has no deferred tax liabilities or assets.

20. Deferred tax (continued)

Deferred tax liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Group		Company	
	As at 31 December 2011 £'000	As at 31 December 2010 £'000	As at 31 December 2011 £'000	As at 31 December 2010 £'000
Deferred tax assets	-	-	-	-
Deferred tax liabilities	(493)	(471)	-	-
	(493)	(471)	-	-

At the balance sheet date, the Group has available unused UK tax losses of £3.8 million (December 2010: £2.4 million), available unused Canadian tax losses of £6.6 million and available unused Denmark tax losses of £1.9m available for offset against future profits.

No related deferred tax asset is recognised on the UK, Canadian or Denmark losses due to the unpredictability of future profit streams. UK and Denmark losses may be carried forward indefinitely and may be recoverable if suitable taxable profits arise in future periods. If unutilised, the Canadian losses will expire between 2014 and 2030.

21. Other financial liabilities

Trade and other payables

	Group		Company	
	As at 31 December 2011 £'000	As at 31 December 2010 £'000	As at 31 December 2011 £'000	As at 31 December 2010 £'000
Trade creditors and accruals	395	556	197	304
Current tax payable *	68	2,951	-	2,138
Amounts due to subsidiaries	-	-	9,870	10,258
	463	3,507	10,067	12,700

Trade creditors and accruals principally comprise amounts outstanding for trade payables and ongoing costs. The average credit period taken for trade purchases is 24 days. For most suppliers no interest is charged on outstanding balances however the Group has policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates their fair value.

*Current tax payable comprises capital gains tax liabilities in Australia and the United Kingdom, and interest thereon. The liability arose on the disposal of listed investments during the years ended 30 June 2007, 2008, 2009 and 2010 and was settled in full in 2011.

22. Share capital

The numbers below comprise issued and fully paid ordinary shares of 0.1 pence each	Number of shares	£'000
At 1 July 2010	854,965,026	854,965
At 31 December 2010	854,965,026	854,965
Shares issued in the year	677,892,402	677,892
At 31 December 2011	1,532,857,428	1,532,857

The Company has one class of ordinary shares which carry no right to fixed income.

Warrants and Options

The following warrants were exercised during the year:
- Issued 21 December 2009 - 60,000,000 exercisable at 2.5p per share

The following share options expired during the year:
- Issued 9 July 2007 - 1,000,000 exercisable at 10p per share
- Issued 15 January 2008 - 250,000 exercisable at 8p per share
- Issued 21 January 2008 - 350,000 exercisable at 8p per share

The following share options were issued during the year:
- Issued 13 September 2011 - 14,245,000 exercisable at 4.6p per share*
- Issued 13 September 2011 - 14,000,000 exercisable at 2.3p per share*
- Issued 13 September 2011 - 21,700,000 exercisable at 1.8p per share*
- Issued 13 September 2011 - 7,472,500 exercisable at 3.7p per share*
- Issued 13 December 2011 - 9,750,000 exercisable at 2.2p per share
- Issued 13 December 2011 - 9,750,000 exercisable at 3p per share

* These share options were issued in exchange for outstanding Elko Energy Inc options at the date Xtract acquired the outstanding non-controlling interest in Elko Energy Inc. These replacement options were issued solely to preserve the existing rights of the option holders. There has been no variation to the original terms and conditions of the options.

The following share options remain outstanding at 31 December 2011:
- Issued 9 July 2007 - 1,000,000 exercisable at 12p per share
- Issued 15 January 2008 - 250,000 exercisable at 10p per share
- Issued 15 January 2008 - 250,000 exercisable at 12p per share
- Issued 21 January 2008 - 150,000 exercisable at 8p per share
- Issued 14 August 2009 - 11,100,000 exercisable at 5.0p per share
- Issued 7 December 2010 - 26,400,000 exercisable at 2.5p per share
- Issued 13 September 2011 - 14,245,000 exercisable at 4.6p per share
- Issued 13 September 2011 - 14,000,000 exercisable at 2.3p per share
- Issued 13 September 2011 - 21,700,000 exercisable at 1.8p per share
- Issued 13 September 2011 - 7,472,500 exercisable at 3.7p per share
- Issued 13 December 2011 - 9,750,000 exercisable at 2.2p per share
- Issued 13 December 2011 - 9,750,000 exercisable at 3p per share

All of the above share options entitle the holder to one fully paid share in the Company upon payment of the share option exercise price per share. All share options vest either immediately or within three years of issue and expire within three years of vesting.

Standby Equity Distribution Agreement arrangement fee

On 12 September 2011 the Xtract shareholders approved an agreement with YA Global Master SPV to provide potential future funding of up to £12.5 million in the form of an Equity Line Facility. Fund drawdowns from the equity line facility are dependent on the share price and the volume of Xtract shares traded in any given period. In addition each advance cannot exceed the greater of £2 million, an amount that would result in YA Global Master SPV holding more than 2.99% of the entire issued ordinary share capital of Xtract, or an amount equal to 300% of the average daily traded value for each of the 10 trading days prior to the Company submitting notice for an advance. The cost of setting up the SEDA was £0.25 million, this amount has been recognised in the current year income statement in finance costs.

Other share issues

In addition to the 60,000,000 shares issued as a result of the exercise of warrants during the year, 350,245,343 shares were issued as consideration for the acquisition of the remaining non-controlling interest in Elko Energy Inc (see note 15), 250,000,000 shares were issued on re-admission to AIM at 1.25 pence per share, and 17,647,059 shares were issued under the Company's SEDA arrangements at 1.7 pence per share.

23. Reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the equity component of share-based payments.

Available-for-sale reserve

The available -for-sale reserve is used to recognise fair value movements on available-for-sale investments until they are disposed of, or become impaired.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries, joint ventures and associates.

24. Notes to the cash flow statement

	Group		Company	
	Year to 31 December 2011 £'000	6month period 31 December 2010 £'000	Year to31 December 2011 £'000	6month period 31 December 2010 £'000
Loss for the year / period	(4,314)	(1,394)	(5,478)	(1,750)
Adjustments for:				
Share of results of associates	12	39	-	-
Impairment of joint venture	(324)	2,249	-	-
Impairment of investment in subsidiary	-	-	1,900	2,090
Investment revenue	(38)	(42)	(9)	(35)
Finance costs	250	-	250	-
Impairment of held-for-sale asset	106	-	-	-
Other losses / (gains)	83	(1,119)	188	-
Income tax credit	(105)	(485)	(30)	(604)
Interest (income) / expense	-	(321)	254	(298)
Government grants	-	(33)	-	-
Depreciation of property, plant and equipment	4	3	3	2
Amortisation of intangibles	1	1	-	-
Loans to subsidiaries written off	-	-	84	80
Share-based payments expenses	12	430	12	166
Operating cash flows before movements in working capital	(4,313)	(672)	(2,826)	(349)
Decrease / (increase) in receivables	35	87	(10)	(22)
Increase in payables	(159)	(231)	(106)	(85)
Cash used in operations	(4,437)	(816)	(2,942)	(456)
Income tax paid	(2,783)	-	(2,108)	-
Foreign currency exchange differences	129	(836)	(20)	(119)
Net cash used in operating activities	(7,091)	(1,652)	(5,070)	(575)

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with a maturity of three months or less. The carrying amount of these assets approximates to their fair value.

25. Expenditure commitments

At the balance sheet date the Group and Company have outstanding capital expenditure commitments, which fall due as follows:

	Group		Company	
	As at 31 December 2011 £'000	As at 31 December 2010 £'000	As at 31 December 2011 £'000	As at 31 December 2010 £'000

Capital expenditures				
Within one year	3,115	6,106	-	1,159
Within the second to fifth years inclusive	-	-	-	-
	3,115	6,106	-	1,159

The expenditure commitment relates to work programme capital expenditures in relation to the Group's exploration and evaluation properties. The capital expenditure commitments are subject to possible variation on application to the relevant governmental authority.

26. Share-based payments

The Company has issued share options and warrants to certain employees and officers of the Group, along with external third parties. All share options/ warrants vest immediately or within three years of the issue date. If the share options/warrants remain unexercised after the relevant time period from the date of grant the share options/warrants expire.

Details of the Company's share options/warrants outstanding during the year are as follows.

	Year ended 31 December 2011		6month period ended 31 December 2010	
	Number of share options / warrants	Weighted average exercise price £	Number of share options / warrants	Weighted average exercise price £
Outstanding at beginning of year/period	100,750,000	0.030	79,750,000	0.035
Granted during the year/period	76,917,500	0.028	26,400,000	0.025
Exercised during the year/period	(60,000,000)	0.025	-	-
Expired during the year/period	(1,600,000)	0.093	(5,400,000)	0.078
Outstanding at the end of the period/year	116,067,500	0.031	100,750,000	0.030
Exercisable at the end of the year period/year	96,567,500		100,750,000	

The weighted average share price at the date of exercise for share options exercised during the year was £0.025. The share options outstanding at 31 December 2011 had a weighted average exercise price of £0.031 (December 2010: £0.030), and a weighted average remaining contractual life of 2.34 years (December 2010: 1.37 years). All share options issued to Directors and employees are recognised as an expense in the income statement over the vesting period of the options.

In September 2011 the Group acquired all outstanding share capital in Elko Energy Inc not already owned. All existing share option holders in Elko Energy Inc received replacement share options in Xtract Energy Plc on the basis of seven Xtract options for each Elko option held . These replacement options were issued with the sole intention of preserving the existing rights of the option holders.

All terms and conditions relating to the original share options remain the same. The new exercise prices were calculated as the exercise prices payable under the Elko options converted to Pounds Sterling at the rate of exchange quoted by the Bank of Canada at noon on the 13 September 2011, divided by seven. The aggregate estimated fair value of the replacement options was £795,015, of which £270,000 had already been recognised in the Group share based payment reserve in 2010.

19.5 million share options were granted on 13 December 2011. The aggregate estimated fair value of the options granted on that date was £176,533

26.4 million share options were granted on 7 December 2010. The aggregate of the estimated fair values of the options granted on that date was £166,308.

The inputs to the Black-Scholes model for each issue of share-options are as follows:

Date of issue	**13/12/11**	**13/12/11**	**30/09/10**	**15/07/10**	**15/07/10**	**01/07/09**	**01/07/09**	**21/12/07**
No.share options/warrants issued	**9,750,000**	**9,750,000**	**1,312,500**	**6,160,000**	**21,700,000**	**5,880,000**	**14,000,000**	**4,025,000**
Share price	**£0.0188**	**£0.0188**	**£0.0135***	**£0.0138***	**£0.0138***	**£0.046***	**£0.023***	**£0.046***
Strike price	**£0.022**	**£0.03**	**£0.037**	**£0.037**	**£0.018**	**£0.046**	**£0.023**	**£0.046**
Expected volatility	**97.47%**	**97.47%**	**100%**	**100%**	**100%**	**100%**	**100%**	**95%**
Expected life	**5.5 years**	**6 years**	**5 years**	**5 years**	**5 years**	**5 years**	**5 years**	**5 years**
Risk free rate	**1.38%**	**1.38%**	**1.99%**	**2.57%**	**2.57%**	**2.53%**	**2.53%**	**3.93%**

Expected dividends yield	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**

26. Share-based payments (continued)

Date of issue	**12/11/07**	**12/06/07**	**15/05/07**	**07/12/2010**
No.share options/warrants issued	**840,000**	**2,100,000**	**1,400,000**	**26,400,000**
Share price	**£0.046***	**£0.046***	**£0.046***	**£0.0165**
Strike price	**£0.046**	**£0.046**	**£0.046**	**£0.025**
Expected volatility	**95%**	**95%**	**955**	**87.06%**
Expected life	**5 years**	**5 years**	**5 years**	**3 years**
Risk free rate	**4.07%**	**4.69%**	**4.69%**	**1.04%**
Expected dividends yield	**0%**	**0%**	**0%**	**0%**

*Being the replacement share options issued as part of the Elko transaction. The original CAD $ share price used has been translated at the same exchange rate as the strike price for comparison.
Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.
The total charge in the year to the income statement was £12,000 (2010: £430,000). The total amount recognised in equity by the Group relating to share-based payments at the Balance sheet date is £1,202,000 in the share based payments reserve after the reversal of expired and lapsed share options. The total amount recognised in equity at 31 December 2010 was £564,000 in the share based payments reserve and £538,000 in the warrants reserve. All warrants were exercised in 2011.

27. Financial instruments

Capital risk management
The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns. The Group is not subject to externally imposed capital requirements. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group manages its liquidity through orderly and planned realisation of existing investments in order to fund investment in new opportunities and provide working capital for operating costs and overheads.

The Group currently has no debt and as such does not review its gearing ratio at present.

Significant accounting policies
Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

Categories of financial instruments
The Group calculates the fair value of assets and liabilities by reference to amounts considered to be receivable or payable at the balance sheet date. The Group's financial assets and liabilities, together with their fair values are as follows:

	Book value		Fair value	
Group	December 2011 £'000	December 2010 £'000	December 2011 £'000	December 2010 £'000
Financial assets				
Cash and cash equivalents	4,488	8,766	4,488	8,766
Available-for-sale financial assets (Level 1)*	-	497	-	497
Loans and receivables	1,472	237	1,472	237
	5,960	9,500	5,960	9,500
Financial liabilities				
Other	395	556	395	556

The Company's financial assets and liabilities, other than trade receivables and payables, together with their fair values are as follows:

Book value	Fair value

Company	December 2011 £'000	December 2010 £'000	December 2011 £'000	December 2010 £'000
Financial assets				
Cash and cash equivalents	425	1,346	425	1,346
Available-for-sale financial assets (Level 1)*	-	497	-	497
Loans and receivables	129	119	129	119
	554	1,962	554	1,962
Financial liabilities				
Other	197	304	197	304
Intercompany loans	9,870	10,258	9,870	10,258
	10,067	10,562	10,067	10,562

* Level 1 fair value measurements are amounts derived from quoted prices (unadjusted) in active markets for identical assets or liabilities

Market risk

The Group's activities expose it primarily to the financial risks of changes in the market prices of equities and changes in foreign currency exchange rates. The Group applies a continuous review process to manage its exposure to foreign currency and equity price risk:

· Equity prices of the Group's holdings are monitored by senior management on a daily basis;
· The Board has established strategies for each of the respective holdings based on their expectations of likely movements in equity prices and the desired balance of the Group's investment portfolio;
· These strategies are updated on a regular basis to reflect actual market data and the changing needs of the business;
· The respective exchange rates of the currencies for which the Group holds significant balances are monitored on a daily basis; and
· Known cash requirements in the respective currencies in which the Group transacts are matched against cash reserves and any short falls are addressed through transfers throughout the longest practical timeframes in order to minimise as best as possible foreign currency risk.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies and consequently exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including tax liabilities) at the reporting date are as follows:

	Liabilities		Assets	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
Australian dollar	31	1,092	63	1,370
US dollar	-	8	3,836	4,677
Danish Krone	146	63	31	40
Euro	15	17	82	1,198
Mexican peso	2	4	6	6
Moroccan dirham	-	-	23	23
Canadian dollar	1	6	40	9

Foreign currency sensitivity analysis

The Group is mainly exposed to the US Dollar currency risk. (December 2010: US Dollar and Australian Dollar currency risk exposure).

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the US dollar and for the prior 6 month period only the Australian dollar. 10% represents management's assessment of a realistic potential increase or decrease in both exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. A positive number below indicates an increase in the profit and other equity where the Sterling strengthens against the relevant currency. For a 10% weakening there would be an equal and opposite impact on the profit and other equity.

	Australian Dollar impact		US Dollar impact	
	Dec 2011 £'000	Dec 2010 £'000	Dec 2011 £'000	Dec 2010 £'000
Profit or loss	-	(27)	(384)*	(467)

*This is mainly attributable to the cash reserves being held predominately in United States dollars and the reporting currency being Pounds Sterling.

Interest rate risk management

The Group's exposure to interest rate risk is limited to its cash and cash equivalents held and is immaterial.

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's principal financial assets are cash deposits and the credit risk on these liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.
An allowance for impairment is made where there is an identified loss event, which is evidence of a reduction in the recoverable cash flows.

28. Related party transactions

Group
Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Director Transactions
In 2010 HMRC completed an investigation into the PAYE and NIC responsibilities of Xtract Energy Plc. In the final settlement an amount of £31,178 relating to income tax which should have been deducted from John Newton's director's fees, during the tax years 2005/2006 to 2009/2010, was paid by the Company.
John Newton is personally liable for the amount owing and he will reimburse Xtract £31,178. As at 31 December 2011 this receivable from John Newton is included in Trade and other receivables.

Remuneration of key management personnel
The remuneration of the directors, who are the key management personnel of the Group, is set out below inaggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. Further information about the remuneration of individual directors is provided in the Directors' Remuneration section of the Directors' Report on page 14.

	Year ended 31 December 2011 £'000	6 month period ended 31 December 2010 £'000
Short-term employee benefits	831	296
Post-employment benefits	11	-
Termination payments	22	172
Share-based payments	12	297
	876	765

29. Events after the balance sheet date

On 11 January 2012 the Noble Byron Welliver arrived on site at the P2-10 drilling location in the Netherlands and the well was spudded. The rig move was delayed due to the weather conditions that prevailed throughout December 2011. The well is still being drilled and the results of the well will be known in the summer of 2012. The Group has an economic interest in the results of this well as a result of the over-riding royalty agreement described in Note 13.

On 10 February 2012 the Maersk Resolve drilling unit arrived at the Luna location on the 01/11 licence in Denmark and was jacked up out of the water and made ready for drilling operations. The well was spudded on 12 February 2012. On 16 March 2012 Xtract announced the near completion of the drilling of the Luna prospect on the 01/11 licence. The Luna well did not encounter hydrocarbons and following consultation with the Danish Energy Agency ("DEA") that the licence obligations had been met, the decision was taken to plug and abandon the well as a dry hole on 16 March 2012.

Extensive new data obtained from drilling the Luna well will be analysed and integrated into the overall Rotligendes play model covering the two licence areas. This analysis will be performed by independent consultants on behalf of Xtract. Only once this activity is complete and has been discussed with the 01/11 and 02/05 partners will the Company have a firm basis on which to determine how best to proceed with the Danish acreage. This is anticipated to occur in the summer of 2012. Xtract will have a significant write off on intangible assets in the first quarter of 2012 as the balance of £2,805,000 at 31 December 2011 and amounts incurred post year end are mostly attributable to the Luna well drilling program.

On 1 March 2012 the Company drew down £300,000 (before expenses) on its Standby Equity Distribution Agreement ("SEDA") with YA Global Master SPV Ltd ("Yorkville"). This drawdown was undertaken at a price of 2.051p per share and resulted in the issue of 14,627,011 new ordinary shares of 0.1p in the Company.

On 3 May 2012 Xtract signed agreements in relation to the Farmin Subscription Agreement executed amongst Santos International Holdings Pty Ltd ("Santos"), Xtract International Ltd ("Xtract International") and Xtract Energy Plc on 17 November 2008 in relation to Zhibek Resources Ltd ("Zhibek"), which holds a majority interst in the Kyrgyz company KNG Hydrocarbons. The signing of these agreements provides the basis for Santos and Xtract to pursue an exit from their investment in Zhibek. In consideration for the release by Xtract of Santos from certain funding obligations under the Farmin Subscription Agreement, Xtract International has received 140,000,000 ordinary shares in Caspian Oil & Gas, an oil producer and explorer listed on the Australian Securities Exchange.

At 3 May 2012 the fair value of the 140,000,000 was AUD $560,000 (£357,000) and consequently a further impairment charge of £196,000 will be recognised in 2012 to the asset held-for-sale recognised in the Group's balance sheet.

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