Trapoil
Unlocking potential

Annual Report and Financial Statements 2012

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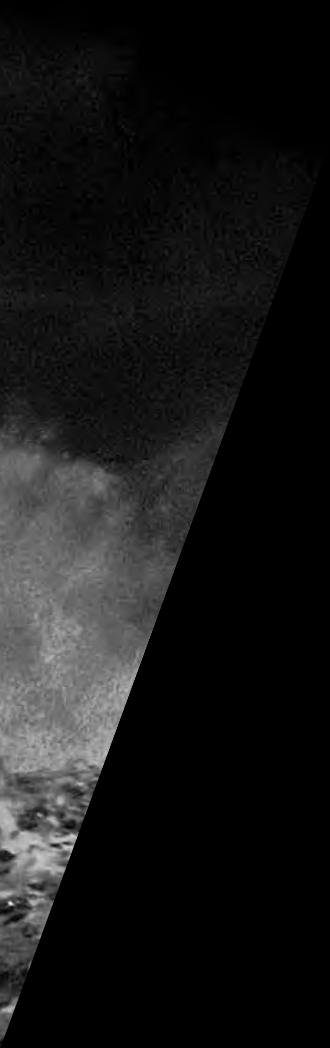
Unlocking Potential



Trapoil is an oil and gas exploration, appraisal and production business focused on the United Kingdom Continental Shelf in the North Sea. Established in 2007, we create exploration opportunities and shareholder value by combining organic development of our existing portfolio with the acquisition of additional assets.

We identify and exploit the value that others might not see by applying a combination of skillsets, and our opportunism is supported by a rigorous approach to risk management.

- **Technical expertise** – application of world-class data and extensive geological and geophysical knowledge and experience, from operational to board level.

- **Pragmatic partnership** – strong working relationships with industry peers and financial institutions.

- **Balanced portfolio** – combination of developing fields, farm out agreements and leveraging of our portfolio through M&A activity.

Operational & Financial Highlights

Operational

Trapoil has delivered several notable milestones during 2012 and early 2013, including two oil discoveries, first oil achieved at Lybster and Athena, and several significant transactions concluded.

A

Athena

Completed acquisition of 15% interest in Athena producing field, currently producing c.10,800bopd (Trapoil share: 1,620bopd). Payback anticipated in approximately one year.

D

Debt

Secured US$20m, three-year senior secured borrowing facility from GE Capital post year end, to be used to support the growth aspirations of the Group.

E

Exploration

Two oil discoveries drilled to date, with further appraisal required to fully commercialise. Scotney well result expected early Q2 2013.

O

Operatorship

Secured substantial equity stake in Knockinnon and signed agreements to acquire major equity stakes in Trent East and Orchid. Becoming operator is integral to these acquisitions, giving Trapoil greater opportunity to drive these opportunities forward.

P

Portfolio Management

Successfully secured three licences in the UKCS 27th Licensing Round, farmed into major unconventional acreage position and acquired / agreed to acquire additional interests in Knockinnon, Trent East and Orchid. Sold interest in Lacewing to avoid paying interests in HPHT opportunities.

Financial

In a difficult market environment, Trapoil continues to remain well positioned to execute its work programmes. During the year the Group raised additional equity and post year end it secured a senior secured debt facility whilst minimising capital spend through carried interests and portfolio management.

Fundraising, Debt and Hedging

Raised additional equity of £4m after expenses. Subsequent to the year end, secured US$20m, three-year senior secured borrowing facility from GE Capital and entered into series of swap transactions with a subsidiary of BP International Limited, ranging from US$109/bbl in 2013 to US$96/bbl in 2015.

£4m

Loss for the Year

Loss After Taxation for 2012 was £10.9m (2011: £4.5m). Loss included impairment charge of £6.8m in respect of licences relinquished after the year end and the unsuccessful Magnolia exploration well.

£10.9m

Capital Expenditure

Acquired 15% working interest in Athena for £21.8m, expected to deliver strong cashflow and payback in approximately one year. Of the four wells drilled or drilling, Trapoil will be fully carried in three, in line with the strategy to reduce capital exposure. Anticipated capital spend of up to £5m in 2013 on developing drilling prospects for 2014.

15%

Cash Resources

Cash balances of £9.3m at year end. It is anticipated that this balance will strengthen during the year, driven by strong cashflows from Athena offset by limited capital exposures and controlled operating expenditure.

£9.3m

Chairman's Statement

Kevin Watts

Despite a challenging year for the Group and the UK North Sea sector as a whole, we have been involved in two exploration discoveries, been awarded a number of new licences in the UKCS 27th Licensing Round and completed the acquisition of a 15% working interest in the Athena producing field. These are substantial achievements for a smaller quoted company which has operated against a backdrop of rig and other delays and a perceived tightening of budgets in the industry. These results confirm the validity of our business model and the ability of our explorers to find oil. Our next challenge, which we are working on actively, is to commercialise these successes to create real value for shareholders. In parallel with this activity we will continue building and maturing our exploration portfolio to enable us to offer an exciting exploration programme for 2014 and beyond.

Our first discovery, on the Orchid prospect in Block 29/1c in the Central North Sea, was spudded in March 2012 and completed in May 2012. The well found oil in what we believe to be commercial quantities but we were unable to persuade the partnership group to conduct a flow test. We continue to believe that the Orchid discovery, which sits in a prolific area between the Bittern and Banff oil fields and was listed by the Department for Energy and Climate Change ("DECC") as the top North Sea discovery in 2012, has the potential to yield a commercial development. We recently backed this judgment by acquiring a further 45% interest in the block from Summit, taking our total stake in the block to 60%, a level which should allow us to drive future activity on the discovery and to dilute our interest in the future in return for third-party funding if required. Commercialisation of the discovery requires a successful appraisal well to be drilled to demonstrate adequate flow rates. We expect to assume operatorship of the block in due course.

Our second discovery, on the Romeo prospect in Block 30/11c in the Central North Sea, is potentially much more significant. The discovery well, which was spudded in September 2012 and completed in January 2013, was drilled to a measured depth of approximately 15,300ft and found hydrocarbons within three different zones. Good quality oil similar to that encountered at the nearby Fulmar field was recovered from one of the zones but the well was not tested. Based on our modeling of the discovery we see significant potential to the north-east of the discovery well but a further well will be required to test and confirm this potential. The timing of such a well will depend on the degree of alignment across the two joint venture groups involved in this discovery.

In the UKCS 27th Licensing Round we were provisionally awarded interests in three traditional North Sea licences and through our involvement with Extract Petroleum Limited we also picked up, via a farm in to their licence award, a large position in an unconventional play type. The traditional licences cover a 50% interest in Blocks 14/11, 14/12, 14/16, 16/18b (split), 21/8c, 21/9b (split), 21/10c, 21/14a and 21/15b and mostly require seismic to be acquired before drilling decisions can be made. The unconventional play covers more than 1,000km^2 and hinges on whether oil can be proven to flow at commercial rates from tight reservoirs. We will fund approximately £1m of research and development into this concept and work towards establishing a consortium of major oil companies to drill a well to test the concept. Our reward, if we are successful, is likely to be a carried interest in the acreage.

Since the year end, we spudded two exploration wells – the Scotney prospect in Block 20/5b, in which we have a 12.5% carried interest, and the Magnolia prospect in Block 13/23a, in which we have a 10% carried interest. Unfortunately, the Magnolia well has recently proved to be unsuccessful, as no significant hydrocarbons were found. Operations on Scotney continue and we await the results with interest.

In December 2012, we successfully completed the acquisition of a 15% working interest in the Athena producing oil field in the Central North Sea Block 14/28b, from Dyas UK Limited. This transaction, which took nearly 12 months to complete, should provide us with valuable cash flow and allow us to conduct our exploration activities in a tax efficient manner. At the end of 2012, the Company had total cash resources of approximately £9.3m and in early 2013 we have put in place a US$20m three-year senior secured borrowing base lending facility with GE Capital to increase our financial flexibility.

We have taken a number of steps throughout the year to improve the degree of control we have over our asset base. We have recruited well-qualified staff and consultants to establish an operating capability to enable us to drill exploration and appraisal wells in the North Sea. Our application for approval as an operator is currently being considered by DECC. We have re-negotiated our carry arrangements with Caithness Oil Limited to increase our interest in the Knockinnon discovery to 70%; we have increased our interest in the Orchid discovery to 60% and we have also acquired a 33.33% operated position in the Trent East gas discovery. These prudent steps are designed to reduce the effects of delays and partner misalignment issues that affected our 2012 exploration programme and to provide us with greater control over our future activities.

Turning the two oil discoveries we made in 2012 into commercial successes will be one of our top priorities over the next couple of years but we will also be devoting significant time and effort to the other discoveries in our portfolio, such as Trent East, Knockinnon and, to a lesser extent, Surprise, where we only hold a small interest. All of these discoveries require further appraisal drilling before we can determine whether they will constitute viable developments. We intend to examine options for the financing of these appraisal wells, either individually or as a package, which minimise our contribution to the risk capital required in an extension of our existing carried exploration model. Our objective is to increase the underlying value of all of these discoveries and to see more of this value being reflected in our share price.

I believe the Group has established a solid foundation for growth in 2013. It has a dynamic management team and an exciting exploration programme, backed by a strong balance sheet and cash flows from production. Our key corporate objectives over the next 12 months are as follows:

- Execute our 2013 exploration programme while remaining alert to the possibility of additional activity later in the year.
- Continue to grow and mature our exploration portfolio to generate an active drilling programme for 2014 and beyond.
- Start the process of commercialising our discoveries to increase their underlying value by finding partners and funding for an appraisal well programme commencing in 2014.
- Retain financial flexibility to enable the Group to take advantage of ad hoc opportunities as they arise.

On behalf of the Board, I should like to thank all our shareholders for their support during the past year and for their continuing interest in our activities as we look forward to rising to the challenges from the remainder of 2013 and beyond.

Chief Executive Officer's Report

Mark Groves-Gidney

Introduction

The year ended 31 December 2012 was undoubtedly a challenging year for the management team but we have taken the right actions to build strong foundations and look forward to the remainder of 2013 with optimism.

The depressed state of capital markets in 2012 with a general dearth of risk capital, especially in Europe, provided a difficult backdrop for ambitious small-cap companies with growth aspirations. Despite the lack of equity and subdued investor appetite, the Group has delivered many notable milestones that we believe in time will deliver shareholder value.

Production — the Athena and Lybster Producing Oil Fields

Throughout the second half of 2012, management focused on gaining the requisite approvals to be able to complete the acquisition of a significant 15% working interest in Athena **(Licence P.1293, Block 14/28b)**. Although this proved to be an arduous process, we successfully obtained all the necessary consents with completion of this sizeable transaction occurring just prior to the year end. The deal was ultimately concluded on significantly improved commercial terms following a renegotiation with Dyas, the vendor.

Under the revised terms, we are delighted to now be part of the Athena consortium and are currently benefiting from extended plateau production at a rate of approximately 10,800bopd. It is not yet possible to comment with any degree of comfort on the ultimate recoverable reserves but we are satisfied that the price paid reflects an anticipated recovery in the "low to mid teens" million barrels of oil reserves.

Production as it currently stands is forecast to deliver a pay back period of approximately one year and our anticipated return on investment, based on our projections, should ultimately prove to be attractive.

The Lybster field came on stream 2 May 2012. Lybster produced 50,027bbls (gross) in 2012; of which Trapoil was entitled to 20%. During the period, the field experienced operational problems from the build up of wax in the well necessitating regular wireline interventions. The current production rate is approximately 300bopd, when producing. Initially, production was trucked to the Immingham refinery, however, following completion of the requisite modifications in January 2013, oil is now being trucked to the nearby Nigg facility.

Debt Facility

The acquisition of an interest in the Athena producing field enabled the Group to secure a debt facility to provide an additional source of funding and enhanced financial flexibility. We were offered terms from several leading financial institutions and were pleased to mandate GE Capital who provided the optimal combination in respect of fees, interest rate (LIBOR+6 to 7% depending upon economic drivers) and facility size (US$20m) and term (three years). We look forward to a long and successful relationship with GE Capital.

Conterminously, with securing the debt facility we entered into a series of oil price hedging transactions to obtain greater certainty over our future forecast cash flow streams. With the support of GE Capital, we entered into swaps with Britannic Trading Limited, a subsidiary of BP International Limited, for a period of three years at yearly average prices ranging from approximately US$109 to US$96. Again, we look forward to establishing a strong relationship with Britannic.

With the agreed US$20m senior secured borrowing base facility implemented at an acceptable cost alongside hedging from Britannic over approximately 60% of our near-term future production stream, we believe that the Group is financially well positioned for the immediate future.

Exploration Activities in 2012

Our track record to date is cautiously encouraging with two oil discoveries achieved from our first two wells. Although both discoveries require further appraisal, they offer the Group potential of future commercialisation. Our third well, Magnolia, has recently been proven unsuccessful, with no significant hydrocarbons encountered.

Orchid

We farmed into Orchid and secured a second tranche of equity in this well via our acquisition of Reach Oil & Gas Limited ("Reach") in 2011. The Orchid well was originally scheduled to be drilled in the second half of 2011, but was delayed due to rig availability. Drilling eventually commenced in March 2012 and operations were completed in early May 2012. We discovered an approximate 200ft plus hydrocarbon column in the primary Chalk reservoir. Chalk is a difficult reservoir to understand and we were unable to take cores or conduct testing. As a result, we were left with many unanswered questions, especially as wireline logs indicated higher than normal water concentrations with the oil.

"We are delighted to now be part of the Athena consortium and are currently benefiting from extended plateau production at a rate of approximately 10,800bopd."

Following consultation with various experts, we believe our preliminary conclusion at the time of drilling was correct and that there is moveable oil in the zone of interest. Future activity will require a further appraisal well to test flow rates. If this is successful, we believe that there is sufficient oil for a commercial development assuming that we can make use of nearby export facilities. We have recently entered into a transaction to acquire the operator's (Summit Petroleum Limited ("Summit"), a subsidiary of Sumitomo Corporation) 45% equity and assume operatorship for a consideration of £1.5m. With a controlling position, we can drive the asset forward towards potential future commercialisation and currently expect to drill a further well in 2014, subject to rig market conditions and securing a further partner.

Romeo
Our second well, Romeo **(Licence P.1666, Block 30/11c)**, proved challenging but turned out to be a successful exploration well that helps to de-risk the accumulation. We believe the opportunity offered by Romeo remains as significant as our pre-drill estimates of resources.

This well was a joint well between our partnership, led by Suncor Energy UK Limited ("Suncor"), and Total E&P UK Limited, who control the adjacent acreage to the West. Suncor operated the well, which was deep and had to be drilled very carefully as there was a concern about potential high temperatures and pressures. Evaluation whilst drilling was not possible due to the manner in which the well was drilled such that no cores were cut even though they were planned. With the benefit of wireline logs, it was clear that we had hydrocarbons in the Jurassic over a gross 700ft column and, upon finding water, we then went back into a second hydrocarbon column in the Triassic. We did not encounter any water in the Triassic before hitting the Zechstein, which completed the drilling commitment to DECC.

There was active debate amongst the five companies involved in this well as to whether or not we should perform a side track or test and, unfortunately, with no clear consensus emerging and the hole deteriorating rapidly due to extensive wireline log runs, the decision to abandon the well was taken. However, we are nevertheless encouraged with the results of this discovery well. It is our current desire, if we can secure partner support, to see a new appraisal well drilled at Romeo.

Consistent with our stated business plan, we have carried interests in both of the above wells thereby limiting our net drilling costs to approximately £2.5m for both wells. It is encouraging that potentially commercial hydrocarbons have been discovered for such a low cost to the Group.

Ongoing Exploration with Carried Interests

Our established business model is to leverage our technical knowledge, combined with access to best in class seismic databases, to unearth exploration opportunities. This allows management to secure partners and gain a carried interest, principally at the time the opportunity is awarded to our consortia or when we farm it out to an industry partner following award (or both).

> "Our second well, Romeo, proved challenging but turned out to be a successful exploration well."

This model has delivered low-cost drilling opportunities, albeit we did not drill as many wells as we had hoped for due to rig delays and differing partner priorities. Following on from the drilling of Magnolia, completed in March 2013, we look forward to completing the drilling of the Scotney exploration well. We are fully carried in both of these wells with no consequent financial downside. Success on Scotney potentially has the ability to significantly enhance our prevailing market capitalisation.

Within our portfolio, we currently hold a 5% carried interest (together with a 17% paying interest) in the Crazy Horse well **(Licence P.1650, Block 14/13)** and an 8% carried interest (together with a 20% paying interest) in the Niobe well **(Licence P.1889, Blocks 12/26b & 27)**, both of which are commitments to DECC. Norwegian Energy Company UK Limited ("Noreco") and Suncor operate these assets respectively and both wells are currently expected to be drilled in 2014.

It is disappointing that Crazy Horse will not be drilled until 2014 following the decision of the operator, Noreco, to relinquish its drilling slot. As a result of the delay, whilst a new rig slot is sought, DECC has granted a licence extension.

It is essential that we maintain and add to our exploration inventory of new opportunities. Through DECC's 26th Licensing Round of three years ago, we hold the Brule NW prospect (and Bordeaux discovery) where we have a 6.25% carried interest (and 40% working interest) and North Kelvin (50% working interest), which both require partners to be secured before drilling can take place.

In the 27th Licensing Round, we were awarded three interesting blocks, in two of which we hold 5% carried interests (plus 45% working interests), named Homer and Valleys. Homer is of particular interest as it covers acreage that may yield upside potential for our Athena producing asset. Noreco is the operator of both and our partnership group needs to shoot new seismic data before taking any further decisions.

Trap Oil Limited will operate the third asset, Savannah (50% interest of which 5% is carried) and this lies adjacent to our newly acquired Extract acreage. As with the other 27th Licensing Round awards, it is currently too early to determine drilling viability.

We look forward to DECC's 28th Licensing Round, on which work is currently anticipated to start early this year to be ready to bid at the year end/ start of 2014, when we expect the formal application process to be announced.

Active Portfolio Management

2012 was very difficult for exploration companies focused on the North Sea. Equity markets have become more risk adverse to this type of resource play, especially with respect to exposure to small-cap companies. Whilst this environment creates good opportunities, it also means that it is difficult to attract farm-out partners for projects. We had three good assets– Inverewe **(Licence P.1864, Block 9/24d)**, Lytham and Sienna – on which we had spent considerable time and resources but regrettably ran out of time to attract partners prior to the end of their respective licensing periods. We had to decide whether it was prudent to drill one or more of the three prospects with high equity positions, 80%, 100% and 28% (8% carried) respectively, and therefore incur significant cost exposure.

Following due and careful deliberation with our partners, it was agreed to relinquish these assets. The Group received £4.25m of entrance and exit fees from our partners in respect of Inverewe. As a result of such relinquishments, we booked a non-cash impairment charge which is reflected in the results for this reporting period.

Further evidence of the difficult market place was encountered with respect to our joint venture with Caithness, which we acquired as part of the Reach transaction. Trapoil was carried as to 35% on two potential wells, one of which was a commitment to DECC. The potential failure of Caithness to drill the commitment well on a timely basis, could have harmed our reputational standing with DECC. Accordingly, an asset swap was negotiated and agreed whereby we assumed control of Knockinnon **(Licence P.1270, Block 11/24)**, in exchange for ceding equity in Forse **(Licence P.1286, Block 11/23)**. We also retained the ability to buy back a 20% working interest in Forse if the well ultimately leads to a discovery along with an agreed amount of compensation of US$7m should the well not be drilled.

> "2012 was very difficult for exploration companies focused on the North Sea."

An important achievement for the Group was the recent agreement to acquire an additional 45% interest in Orchid (to permit us greater control over this promising asset) and farm in to Extract's entire UK asset portfolio acquiring a 100% equity interest and operatorship of its UKCS acreage.

Trapoil's management worked closely with Extract's executive team in its lead up to securing the relevant acreage totaling 1,026km^2 in the 27th Licensing Round. The opportunity is to demonstrate the commercial viability of flowing oil from tight reservoirs. The Group will commit approximately £1m to this opportunity and, following a technical work programme to be completed by Trapoil and Extract, will look to attract a major industry player to drill a "proof of concept" well. Although relatively immature, if successful, this could be a potentially "game changing" well if we can prove that oil will flow out of tight reservoirs at a commercial rate. The amount of oil potentially held in tight reservoirs is equal to, or probably greater than, all of the oil produced to date from the UK North Sea. The possible prize is therefore substantial, but this asset is still very much in its infancy and we will need to perform a considerable amount of work before drilling may occur in 2014/2015.

Operatorship

As a consequence of both our acquisition of Reach in 2011 and our exploration drilling to date, we have a number of assets requiring appraisal. Due to the prevailing investment climate and some individual factors these assets have struggled to attract further investment from some partners, unless they are located in their immediate spheres of influence, for example where they have existing infrastructure. In the majority of cases, it is imperative to have control of these assets so that as operator we can heavily influence the timing for drilling as well as the manner in which the appraisal is undertaken.

Currently, we have four such assets in our portfolio. Trent East **(Licence P.685, Block 43/24a)** is unique in being a gas asset and one where the reservoir has already historically been tested at 50mmcfgd. The other three are oil assets, namely Knockinnon, Orchid and Surprise **(Licence P.1267, Blocks 12/25a & 13/21b)**, where the reservoirs are still to be tested to gain comfort regarding their ability to flow at commercial rates. Such flow assurance testing and the need to gain more information (for example, core data) on the reservoirs is all important before we can potentially finalise a field development plan (FDP). At that stage we would hope to have materially increased the value of the asset in order to potentially monetise it from a sale (singularly or collectively) or alternatively develop the field to obtain cash flow.

Trapoil's management team is currently looking to secure partners to enable drilling of Knockinnon, Orchid and Surprise. If we can secure the requisite funding all of these wells could potentially be drilled in 2014.

Trent East already has greater clarity regarding commercial flow rates. Our agreement with Perenco requires us to secure a rig and assume operatorship, which may lead to a well in late 2013 if we can obtain a single well slot. However it is more likely that we will batch it into a drilling programme with Knockinnon and Surprise for which we need a similar rig type (a "jack up"). Orchid's drilling requirements are different in that it requires a semi-submersible rig.

Trapoil is in the process of completing its qualification with DECC to become an operator and such status, plus the securing of funding partners, will then enable such appraisal drilling projects to commence.

Outlook

The Group has an exciting future ahead of it with numerous wells to be drilled within its portfolio over the next three years. The 2013 drilling programme is shorter than we hoped comprising Scotney and Magnolia and the possibility of the Forse well, in which the Group has a free option to back into 20% of any discovery made, being drilled by Caithness later in the year. We continue to evaluate further potential 2013 drilling opportunities but are cognisant of the difficulties posed by the tight rig market which is unlikely to change radically for 2014. As a Group, we have progressed significantly, particularly in such a difficult market environment, and we will continue to explore all avenues that lead to enhanced shareholder value whilst keeping true to our principles of being a technically led UK focused E&P company. Our progress in 2012 in capturing a meaningful tranche of production, coupled with a robust exploration business model, means that we are well positioned to play our part as an active consortium member, especially in DECC's anticipated 28th Licensing Round.

Additionally, during 2013 we will be working diligently to build an exciting drill programme for 2014 which should include our first operated well(s). We are therefore in good stead to move towards the next stage of our development and look to the future with confidence.

"The Group has an exciting future ahead of it with numerous wells to be drilled."

Keys to Success

The Group has identified five key areas of focus which are critical to its long-term success, and intends to report on progress to date, near term and long-term targets in these areas.

	2012	2013	Long Term
Production	Captured interest in Athena production at a reduced price – completed our promise of buying production with enough cash flow to provide tax synergy but importantly with low abandonment charges.	Monitor wells at Athena and maintain a strong production profile through the year. Evaluate opportunities to drill new wells at Athena to sustain a healthy profile.	Drill out remaining reserves at Athena and commercialise surrounding discoveries, including the proven oil zone lying beneath the Athena reservoir. Continue to support the operator to ensure the efficiency of the Athena FPSO.
Portfolio Management	Increased equity in Knockinnon, successes in the 27th Licensing Round and farmed into the Extract acreage. Increased focus on strengthening our partner relationships following the loss of some assets due to the lack of farm outs.	Addition of interest in Trent East and additional equity in Orchid. Begin the process of commercialising our discoveries to increase their underlying value. Carried interest model to deliver further opportunities.	Increase the number of appraisal wells being drilled on high value assets. Maintain a carried interest model to help manage our risk profile. Drive forward or sell on developments.
Operatorship	Agreement to acquire interest in Trent East is a strong step in our drive to operate assets –this also has positive implications on other assets such as Knockinnon and Orchid.	Qualify as an operator with DECC. Prepare for an active 2014 appraisal programme – address pre-drill permits and well planning needs. Trent East will be our first Trapoil-operated well, in 2013/2014.	Operate assets where control of the time line is essential for shareholder returns and drill up to four operated wells to deliver additional production by 2015. Secure "proof of concept" non-conventional well in 2015.
Financial Discipline	Completion of the Athena acquisition brings tax synergy to our investment programme and strong 2013 cash flow generation. Carried interest model delivers opportunities for low capex risk.	Increased financial flexibility with $20m debt facility and hedging programme. Retain financial flexibility to take advantage of ad hoc opportunities and look for innovative approaches to fund our appraisal well programme.	Maintain equity to continue to fund exciting exploration programmes, whilst pursuing our niche business model. Retain financial flexibility to fund small developments from debt.
Exploration Activity	Drilled two discoveries with challenge to now commercialise them. Delivering on our promise of being an active UK player.	Execute our 2013 exploration programme. Seek further drill ready opportunities for later in the year; if nothing suitable then "keep our powder dry".	Maintain drilling activity and success rate with mix of carried and working interests. Find further meaningful resource plays in the UK or if opportunity set diminishes evaluate need to seek plays outside of the UK.

Finance Director's Report

David Kemp

The year ended 31 December 2012 has been a challenging year for the Group but one where we have established a strong foundation to move forward. Including post year-end events, there have been several notable milestones including the acquisition of a 15% working interest in the producing Athena oil field, first production from the Lybster **(Licence P.1270, Block 11/24)** field, drilling of our first well, completion of a further equity raise and, in January 2013, the securing of our first debt facility.

Share Issue, Debt and Hedging

During the year, the Group successfully raised approximately £4.3m (before expenses) of additional equity funding. Following the year end, the Group secured debt funding from GE Capital Corporation on what we believe are very competitive terms for a Group of our size. This US$20m three-year senior secured borrowing base facility incurs interest on drawndown amounts initially at a rate of LIBOR+7%, reducing to a rate of LIBOR+6% if certain conditions are met. Both the equity and debt funding will be used to support the continued growth of the business.

In conjunction with the debt facility we entered into certain oil price swap arrangements for a significant proportion of our production over a three-year period. Prices achieved were in a range of approximately US$109/bbl for 2013 to US$96/bbl in 2015. These swaps were concluded with Britannic, a subsidiary of BP International Limited, and provide another important element of securing cashflow for our investment needs.

In GE Capital and Britannic we have attracted two blue chip organisations to work alongside us. We look forward to continuing and broadening these relationships in the years to come.

Cash Resources, Acquisitions and Capital Expenditure

As at 31 December 2012, the Group held cash resources of approximately £9.3m and is fully funded to execute its current committed capital expenditure programme. It is anticipated that the Group will complete three wells in 2013, Romeo (commenced in late 2012), Scotney **(Licence P.1658, Block 20/5b)** and Magnolia (**Licence P.1610, Block 13/23a)**. The Group will incur no capital costs for these particular wells, with expenditure being met by our partners through carry agreements. At present, the Group is anticipating 2013 capital expenditure before any acquisitions of up to £5m. This is principally preparatory work ahead of drilling, seismic and other technical work to mature a number of our existing prospects for drilling in 2014. There is no capital expenditure budgeted or anticipated in the Athena field.

During the year, the Group completed the acquisition of a 15% working interest in the producing Athena asset for an effective net cost of approximately £21.8m. We anticipate that this asset will be a strong source of cashflow for the Group and it is believed that the deal will achieve payback in approximately one year. The acquisition of the interest in Athena also provides tax synergy for our investment programme. Based on current projections, tax payable on our income from the Athena asset will be low or zero due to offsetting tax losses and the Group's continuing projected investment.

Income Statement

The Group recorded a Loss After Tax of approximately £10.9m (2011: £4.5m). This loss has two principal components:

- Technical and employment costs incurred in order to progress and develop our portfolio to the drilling stage; and
- An impairment charge on certain assets relinquished in January 2013 and arising from the unsuccessful Magnolia well.

Revenue of £1.7m (2011: £0.8m) was generated from our partnering arrangements with Suncor and Noreco and production income from the Lybster field. This figure does not include any success fees from the 27th Licensing Round awards, announced in late October 2012. Cost Of Sales of £9.8m (2011: £0.8m) were incurred in supporting our assets including Lybster, delivering opportunities to our partners and the amortisation of the CGGVeritas Seismic Data Licence. Also included within Cost Of Sales is an impairment charge. On 9 January 2013, the Group announced that as it had been unsuccessful in securing partners it would be relinquishing three licences including the Inverewe prospect. In addition, the Group recently announced that the Magnolia exploration well had been unsuccessful. As a consequence, the Group has recorded an impairment charge of £6.8m (2011: £Nil) in this reporting period, primarily reflecting the value attributed to the Inverewe and Magnolia asset as part of the Reach acquisition.

Administrative expenses of approximately £3.0m (2011: £4.5m) were reduced reflecting our continued cost control and certain one-off costs incurred in 2011.

Following the deduction of net finance charges of £0.1m (2011: £0.3m), a Loss Before Tax of £10.9m (2011: £4.5m) was recorded.

Balance Sheet

During 2012, the Group made investments of £28.2m (2011: £32.8m) and, at the end of December, the Group acquired an interest in the producing Athena field for an effective cost of £21.8m. During the first half of the year, £2.2m was spent drilling the Orchid prospect. The remaining capital expenditure was spent on progressing our portfolio to the drilling stage, principally through seismic, well planning and survey activity.

Net Current Assets decreased by £24.4m compared to 2011, reflecting reduced cash balances post investment activity. Non-Current Liabilities, representing amounts owing to CGGVeritas for data acquired and capitalised together with provisions for future decommissioning, increased by £4.5m from 2011 reflecting provisions for future decommissioning on both Lybster and Athena.

Outlook

In a very difficult financial environment, the Group remains well funded and through securing the above mentioned debt facility in January 2013 has further financial flexibility to continue to invest in its exciting exploration and appraisal opportunities. The unique nature of our business model means that three wells will be completed in 2013 at no cost to the Group whilst it is anticipated that the Athena field will continue to deliver strong cash returns.

The Team

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Trapoil has a proven and cohesive management team with a high level of oil and gas industry experience and broad range of technical, commercial, operational and financial skills. In addition to considerable expertise in their core disciplines, the seasoned team has a proven track record of delivering value through previous business transactions. Trapoil will continue to build the expertise in its team within a culture driven by entrepreneurship.

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1
Mark Groves-Gidney
Chief Executive Officer

2
Bill Arnold
General Manager

3
Paul Collins
Chief Operating Officer

John Church
Company Secretary and
Financial Controller

4
David Kemp
Finance Director

Duncan Penrose
Adviser to the Board

5
James Storey
Exploration Manager

Martin David
Technical Director

Board of Directors


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1
Mark Groves-Gidney
Chief Executive Officer

Mark Groves-Gidney has over 30 years' experience in petroleum exploration, development and finance. Previous roles held in UK onshore, offshore and international basin analyses and prospect generation led to discoveries in the UK, Holland and Canada. Before setting up Trapoil Mr Groves-Gidney established and developed over 20 years the niche consultancy Exploration Geosciences. He was formerly a Non-Executive Director of SeaEnergy plc (formerly named Ramco Energy plc) and advised a small cap Canadian public company exploring in the NWT, Canada.

2
Paul Collins
Chief Operating Officer

Paul Collins joined Trapoil in 2008 and has 28 years' experience in the oil and gas industry, across drilling and engineering disciplines including production, facilities installation, completion of wells and an extensive array of sub-sea production systems. He has been responsible for budget preparation and cost control for operated fields and projects. Previously he managed an international business for Palace Exploration Company, a US company holding exploration and production assets on the UKCS.

3
Martin David
Technical Director

Martin David has 37 years' experience in the oil industry, including technical, operational, financial and commercial management of exploration portfolios and new venture evaluations. Previously held positions with Unocal UK Limited, Deminex UK Oil & Gas Limited, Veba Oil & Gas UK Limited, and as Exploration Director of North West Europe with Petro-Canada UK Limited and Suncor Energy Incorporated. He has chaired the UK Offshore Operators Association Exploration Committee and has been Secretary of the Petroleum Exploration Society of Great Britain.

4
David Kemp
Finance Director

David Kemp is a Chartered Accountant with 20 years' experience in oil and gas. Previously held positions as Vice President-Finance North Sea and Canada of Technip SA, Head of Finance-Europe for the Amerada Hess Corporation and led the oil and gas E&P team at Simmons & Company International, working on asset acquisitions and divestments, fund raisings and other corporate transactions. He joined the Group in 2011 and is a member of the Institute of Chartered Accountants in Scotland.

5
John Church
Company Secretary and
Financial Controller

John Church is a Chartered Accountant with over 35 years' experience across a variety of industries, having worked with both small and large companies in the private and quoted arenas. Mr Church founded TCP Chartered Accountants

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in 1985, which was subsequently sold in 2008 when he joined Trapoil. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

6
Kevin Watts
Non-Executive Chairman

Kevin Watts is a Chartered Accountant with more than 20 years' experience in the oil industry. He was most recently the President and Chief Executive Officer of Stratic Energy Corporation, from 2005 until 2010. Previously held roles in senior positions and business development at Enterprise Oil plc from 1984, serving on its executive committee from 1995 to 2002 and on the main board, as Corporate Development Director, from early 1998 through to 2002. He is a member of the Institute of Chartered Accountants in England and Wales.

7
Elwyn Jones
Non-Executive Director

Elwyn Jones is the founder and Managing Director of GeoPartners Limited, a consultancy company specialising in seismic value creation. Previously held roles include Senior Vice-President of the CGGVeritas Data Library from 1997 to 2009, Vice-President of PetroAlliance/Western Geophysical's Marine division from 1995 to 1997, President of DG Seis/Caspian Geophysical and Digicon Exploration Limited from 1993 to 1995 and 1989 to 1993, respectively.

8
Marcus Stanton
Non-Executive Director

Marcus Stanton is a Chartered Accountant with extensive experience in investment banking. Previously held roles include Chief Operating Officer of Global Capital Markets and Head of Structured Finance at Robert Fleming & Co., from 1993 to 2000, Director of Hill Samuel & Co., and non-executive of Velosi Limited. He also acts as a financial expert witness in litigation involving banks and is a member of both the Institute of Chartered Accountants in England and Wales and the Chartered Institute for Securities and Investment.

9
Miles Newman
Non-Executive Director

Miles Newman has 27 years' experience working as a geoscientist and entrepreneur in the upstream oil and gas industry. Previously held roles include New Ventures manager at Kerr-McGee from 1988 where he was responsible for building a large portfolio of blocks in China, Brazil, Yemen and Thailand. In 1999 he became the Exploration Manager for Kerr-McGee in Aberdeen. In 2002 he cofounded Reach Exploration (North Sea) Limited, developing a portfolio of exploration, appraisal and development Licences in the North Sea and participated in several discoveries prior to its sale to Trapoil in 2011.

Corporate Governance

The Group is listed on the Alternative Investment Market (AIM) of the London Stock Exchange and is not required to comply with the requirements of The 2012 UK Corporate Governance Code ("The Code"). However, the Board is committed to the high standards of good corporate governance prescribed in The Code and seeks to apply its principles having regard to the current size and structure of the Group.

Board of Directors

The Board is responsible for guidance and direction, playing its role in reviewing strategy, monitoring performance, understanding risk and reviewing controls. It is collectively responsible for the success of the Group.

The Board is made up of four Executive and four Non-Executive Directors. The Non-Executive Directors, one of whom is the Chairman, are independent of management and do not participate in the Group's bonus, pension or benefit schemes although they have share options and are shareholders.

The roles of the Chairman and Chief Executive Officer are separate and as a result, this ensures that a division of responsibility is maintained. The Executive Directors are all employed under service contracts.

Appropriate Directors and Officers liability insurance is maintained by the Group.

All Directors were subject to re-election by shareholders at the first Annual General Meeting held in 2012. In 2013 and at every subsequent Annual General Meeting, one third of the Directors are subject to retirement by rotation.

Board of Directors

The Board has a formal schedule of matters specifically referred to it for decision. In addition to these formal matters required by the Companies Act to be set before the Board of Directors, the Board will also consider strategy and policy, acquisition and divestment proposals, approval of major capital investments, risk management policy, significant financing matters and statutory shareholder reporting. During the year, all Board meetings were convened with a formal agenda, relevant documentation and documented minutes and were attended by Board members in office at the time of the Board meetings. To enable the Board to discharge its duties, all Directors receive appropriate and timely information and the Chairman ensures that all Directors, including the Non-Executive Directors, may take independent professional advice at the Group's expense if required. Appropriate training is available where necessary.

Audit Committee

The Audit Committee is chaired by Mr M J Stanton and its other member is Mr K P Watts (both independent Non-Executive Directors and Chartered Accountants) who are deemed to have recent and relevant financial expertise and Executive Directors may attend by invitation. The meeting minutes are circulated to the Board at the next available Board Meeting, at which the Chairman provides a verbal report of its proceedings.

Under its terms of reference it is required to meet twice a year and is responsible for keeping under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the Auditors. It also has responsibility for public reporting and internal controls and arrangements whereby employees may raise matters of concern in confidence.

The Group has no internal audit function due to the current size of the business, and it is not considered necessary at this time.

The Group's Auditors may provide additional professional services and in line with its terms of reference, the Audit Committee continually assesses their objectivity and independence.

Remuneration Committee

The Remuneration Committee is chaired by Mr K P Watts and its other members are Mr M J Stanton and Mr T E Jones (all independent Non-Executive Directors). The meeting minutes are circulated to the Board at the next available Board Meeting, at which the Chairman provides a verbal report of its proceedings.

Under its terms of reference it is required to meet twice a year and is responsible for ensuring that the Executive Directors and Officers and other key employees are fairly rewarded (extends to all aspects of remuneration) for their individual contribution to the overall performance of the Group.

No Director is involved in deciding their own remuneration.

Board and Committee Attendance in 2012

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Attended	Required	Attended	Required	Attended	Required	Attended	Required
Non-Executive Directors								
K P Watts	15	16	3	3	2	2	–	–
M J Stanton	15	16	3	3	2	2	–	–
T E Jones	16	16	–	–	2	2	–	–
M S Newman	13	15	–	–	–	–	–	–
Executive Directors								
M N Groves Gidney	16	16	–	–	–	–	–	–
P M Collins	14	16	–	–	–	–	–	–
D M Kemp	16	16	–	–	–	–	–	–
M J David	14	16	–	–	–	–	–	–

Nomination Committee

The Nomination Committee is chaired by Mr K P Watts and its other members are Mr M J Stanton and Mr T E Jones (all independent Non-Executive Directors).

Under its terms of reference the committee is required to meet twice a year, but it was considered unnecessary to do so as there was no requirement to nominate new directors and its other functions were properly carried out as part of the procedures of the Remuneration Committee.

Board Effectiveness

The Group does not currently undertake a formal annual evaluation of the performance of the Board, the Committees and individual Directors, but will consider doing so at the appropriate stage of its development in accordance with The Code. The performance of the Executive Directors is reviewed annually by the Remuneration Committee as part of the regular pay cycle.

Internal Control

The Board is responsible for the Group's system of internal control (in accordance with Turnbull guidance) and for regular reviews of its effectiveness and that it is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable not absolute assurance against material misstatement or loss, which is summarised and incorporated into its Financial Reporting Procedures.

The Board adopts an on-going active process for identifying, evaluating and managing significant risks faced by the Group, which was in place for the year under review and up to the date of approval of the report.

Technical Peer Review Group ("TPRG")

To further strengthen its internal control process, the Group has established a TPRG to ensure the technical and commercial integrity of any exploration, appraisal, development and acquisition opportunity before being presented to the Board.

Relations with Shareholders

The Board considers good communication, based on the mutual understanding of objectives with Shareholders, important and achieves this through its Annual Report, Interim Report and comprehensive website (www.trapoil.com). There is also a regular dialogue between the Chief Executive Officer and institutional investors and other financial institutions in addition to the required public announcements. A constant and up to date information flow is maintained on the website containing all press announcements and financial reports as well as extensive operational information on the Group's activities.

The Board encourages Shareholders to attend the Annual General Meeting, at which members of the Board are available to answer questions and present a summary of the year's activity and the corporate outlook.

On behalf of the Board.

Mr J A Church
Company Secretary
27 March 2013

Directors' Report

The Directors present their report together with the Group and Company financial statements for the year ended 31 December 2012.

Business Review and Future Activities

The principal activity of the Company is oil and gas exploration, appraisal, development and production in the United Kingdom. The Company is a public limited company incorporated in England and Wales (company number 07503957) and is listed in London on AIM under the designation TRAP.L. The Company is required by the Companies Act 2006 to set out in this report a review of the business of the Group during the year 31 December 2012 and the position of the Group at the end of the year and principal risks and uncertainties facing the Group. The information that fulfils these requirements, including discussion of the business and future developments, is set out in the Chairman's Statement, Chief Executive Officer's Report and the Finance Director's Report.

Results and Dividends

The Group's loss for the year was £10.9m (2011: loss of £4.5m). The Directors do not recommend the payment of a dividend.

Directors and Officers Interests

The beneficial and other interests of the Directors and Officers holding office during the year and their families in the shares of the Company at 31 December 2012 were:

	As at 31 December 2012 1p Ordinary Shares		As at 31 December 2011 1p Ordinary Shares	
Directors' and Company Secretary's Interests in the Company	**Shares**	**Options**	Shares	Options
K P Watts (Non-Executive Director)	**50,000**	**209,302**	50,000	209,302
M J Stanton (Non-Executive Director)	**46,512**	**156,977**	46,512	156,977
T E Jones (Non-Executive Director)	**2,804,902**	**139,535**	2,804,902	139,535
M S Newman (Non-Executive Director)	**23,203,402**	**139,535**	23,203,402	139,535
M N Groves Gidney (Director & CEO)	**4,973,347**	**3,332,911**	4,973,347	3,332,911
D M Kemp (Finance Director)	**1,564,874**	**3,032,361**	1,564,874	3,032,361
P M Collins (Director & COO)	**4,973,347**	**3,332,911**	4,973,347	3,332,911
M J David (Technical Director)	**440,585**	**1,121,395**	440,585	1,121,395
J A Church (Company Secretary)	**2,671,343**	**1,943,165**	2,671,343	1,943,165

Directors' Third Party Indemnity Provisions

The Company maintains indemnity insurance for its Directors and Officers against liability in respect of proceedings brought by third parties, subject to the terms and conditions of the Companies Act 2006.

Share Capital

At 31 December 2012, 225,910,417 (2011: 205,373,117) Ordinary Shares of 1p each were issued and fully paid. Each Ordinary Share carries 1 vote. Details of Ordinary Shares issued during the financial year can be found in note 15 of the financial statements.

During the year 20,537,300 Ordinary Shares were issued which raised £4,312,833 (gross) in additional capital. The net proceeds from the share issue were £4,084,712.

Substantial Shareholders

At 31 December 2012 notification had been received by the Company of the following who had a disclosable interest in 3% or more of the nominal value of the ordinary share capital of the Company:

9.86%
JP Morgan Asset Management (UK)

8.82%
Henderson Global Investors (UK)

5.07%
Schroder Investment Management (UK)

3.68%
Mr P Curtis

This does not include the shareholdings of the Directors which are disclosed separately. The Company has not been notified of any other person who has an interest in 3% or more of the nominal value of the share captial of the Company.

Employees

The success of the business depends upon maintaining a highly qualified and well-motivated workforce and every effort is made to achieve a common awareness of the financial and economic factors affecting performance. The Group is committed to being an equal opportunity employer and engages employees with a broad range of skills and backgrounds.

Brokers and Nominated Adviser

The Company's joint brokers are Mirabaud Securities LLP and FirstEnergy Capital LLP and the Company's Nominated Adviser is Strand Hanson Limited.

Supplier Payment Policy and Practice

It is the Group's policy to settle the terms of payment with suppliers when agreeing the terms of transactions, to ensure that they are aware of these terms and abide by them. Trade creditor days for the Group for the year ended 31 December 2012 were 38 days (2011: 26 days), based on the ratio of Group trade creditors at the end of the year to the amount invoiced during the year by trade creditors.

Donations

During the year the Group made no charitable donations (2011: £Nil) and no political contributions (2011: £Nil).

Financial Instruments

The Group's principal financial instruments comprise cash balances, short-term deposits and receivables or payables that arise through the normal course of business. The Group does not have any derivative financial instruments.

Key Performance Indicators

The Board regularly reviews Key Performance Indicators ("KPIs"), which are determined at the beginning of each financial year as part of the budget process and the progress towards achieving its objectives. The KPIs include Farm Ins, Farm Outs, Wells Drilled, Net Risked Resource Changes (discussed in the Chief Executive Officer's Report) and control of capital expenditure, overhead costs and cash reserves as set out in the financial statements.

Principal Business Risks and Uncertainties

The Directors are responsible for the effectiveness of the Group's risk management activities and internal control processes. As a participant in the upstream oil and gas industry, there is exposure to a wide range of risks in the conduct of its operations. The principal risks include and are managed as follows:

Financial

Risks:

- Cost inflation
- Oil and gas price movements
- Adverse taxation legislative changes
- Co-venturer and third-party counterparty credit risk
- Adverse foreign exchange movements

Managed:

The Group relies for funding on its own cash reserves and operating cash flows, and in 2013 together with support from a borrowing base facility. Budgets and cash flow projections taking account of a range of cost inflation, oil and gas price, taxation, production volume and joint venture investment scenarios are prepared and updated regularly, circulated to all Directors and reviewed at Board meetings. From 2013 oil price hedging has been undertaken in conjunction with the borrowing base facility and is considered necessary to provide certainty around projected operating cash flows. The Group also continuously reviews its portfolio of assets and considers farming out and the selling of assets as part of its financial planning process. The Group is exposed to changes in the UK tax regime and supports the work of industry bodies in influencing government policy to encourage investment in oil exploration and production, in addition to the management of tax planning and compliance. During the year, the Group has not been exposed to material foreign exchange risk and this will be reviewed as part of the on-going business risk appraisal process by the Board.

Operational

Risks:

- Loss of key employees
- Delay and cost overrun on projects, including weather related delays
- HSE incidents
- Poor reservoir performance
- Exploration and appraisal well failures
- Failure of third-party services
- Lack or failure of operational production resources

Managed:

The Group recognises that to achieve its long-term growth strategy it will need to continue to take an active approach through its Nomination and Remuneration Committees to identify and attract the skills and expertise needed and to incentivise employees appropriately. It has shared equity and carried interests in its assets and is not an operator and as a result is not reliant on contractors and service suppliers. Joint venture partner ability to fund their share of developments and manage projects to effectively cover other operational risks is also carefully monitored together with relationships with government and regulators as part of the on-going Board review process. Full operational risk cover and advice is provided through the Group's insurance brokers. The Group monitors and evaluates all aspects of HSE performance and is in the process of adopting continuous improvement business practices and processes, monitored and evaluated at every level of the organisation as it aspires to qualify as an operator in 2013. The HSE management system is under review by the Board and the Group will continue to conduct its operations in a responsible manner that protects the health and safety of employees, contractors and the public and minimises the impact on the environment.

Strategic and External

Risks:

- Future deterioration of capital markets, inhibiting efficient equity and/or debt raising for projects
- Commercial misalignment with or default of co-venturers
- Material fall in oil price

Managed:

Close relationships are maintained with banks and the investor community as the Group may from time to time require access to new loan facilities and equity. In 2013 the Group secured a Borrowing Base Facility for US$20m. Joint venture partners' ability to fund their share of developments is carefully monitored and continuously assessed. From 2013 oil price hedging has been undertaken in conjunction with the Borrowing Base Facility and is considered necessary to provide certainty around projected operating cash flows.

The risks set out above are not exhaustive and additional risks and uncertainties may arise or become material in the future. Any of these risks, as well as other risks and uncertainties discussed in this report, could have a material adverse effect on the business.

There is no absolute assurance that the Group's exploration and appraisal activities will be successful. The Group's activities may also be curtailed, delayed or cancelled not only as a result of adverse weather conditions but also as a result of shortage or delays in the delivery of drilling rigs and other equipment which, at times, are in short supply. The Group seeks to manage these risks through portfolio management, balancing risk across a range of prospects and leads, which carry varying technical and commercial risks, and carefully managing the financial exposure to each asset in the portfolio through the arrangements set out with joint venture partners.

The Group competes with other exploration and production companies, some of whom have much greater financial resources, for the identification and acquisition of oil and gas licences and properties and also for the recruitment and retention of skilled personnel. The market price of hydrocarbon products is often volatile and is not within the control of the Group. If significant sustained declines occur in the price of oil, or detrimental changes occur to the UK fiscal regime, the economic commerciality of the Group's projects may be significantly reduced or rendered uneconomic.

The successful progression of the Group's oil and gas assets depends not only on technical success, but also on the ability of the Group to obtain appropriate financing through equity financing, debt financing, farm outs or other means. The availability of such funding will continue to be influenced by macroeconomic events, including oil price fluctuations and the overall state of the economy, both of which remain outside the control of the Group. There is no assurance that the Group will be successful in obtaining the required financing going forward. If the Group is unable to obtain the additional financing needed to fulfil its planned work programmes, some interests may be relinquished and/or the scope of its operations reduced. The financial risk management policies are set out in note 4.

Going Concern

Following the Board's review of the Group's financial position and cash flow projections, the Directors consider that the Group has adequate financial resources to continue its operational activities and meet its liabilities as and when they fall due for a period of at least 12 months from the date of authorisation of these financial statements. For this reason the financial statements are prepared on a going-concern basis.

Board Committees

Information on the Audit Committee, Remuneration Committee and Nomination Committee is included in the Corporate Governance section of the Annual Report.

On behalf of the Board.

Mr D M Kemp
Finance Director
27 March 2013

Remuneration Report

Directors' and Officers' Emoluments

The purpose of the Remuneration Committee of the Board of Directors is to ensure that the Executive Directors, officers and employees are fairly rewarded for their individual contribution to the overall performance of the Group and to demonstrate to shareholders that the remuneration of the Executive Directors is set by a committee of the Board whose members have no personal interest in the outcome of those decisions and who will have due regard to the interests of shareholders of the Group.

To achieve these objectives, the Remuneration Committee links the nature and amount of Executive Directors' and Officers' emoluments to the Group's financial and operational performance having regard to:

- Providing appropriate incentives to encourage enhanced performance.
- Providing remuneration packages needed to attract, retain and motivate executives of the quality required.
- Determining targets for performance related pay and whether the executives should be eligible for annual bonuses.
- Considering the Group's relative position for remuneration in relation to other companies.
- Aligning the Executives interests with those of the shareholders.
- Maintaining relevance of the remuneration policy taking into account share incentive plans, performance targets and long-term incentive schemes.

Executive Directors' and Officers' remuneration is dependent upon the performance of the Group and individuals, and both are measured against agreed corporate objectives, which are set each financial year.

Executive Directors' and Officers' emoluments consist of salary, bonus, pension and discretionary share options whilst Non-Executive Directors' emoluments consist of salary and discretionary share options the details of which, for the year to 31 December 2012, are as follows:

Management Remuneration

Name	Salary £	Bonus £	Pension £	Benefits £	Total 2012 £	Total 2011 £
K P Watts (Non-Executive Director)	**70,000**	–	–	–	**70,000**	52,857
M J Stanton (Non-Executive Director)	**50,000**	–	–	–	**50,000**	36,048
T E Jones (Non-Executive Director)	**45,000**	–	–	–	**45,000**	32,043
M S Newman (Non-Executive Director)	**49,166**	–	–	–	**49,166**	20,000
M N Groves Gidney (Director and CEO)	**226,000**	–	**20,717**	**5,450**	**252,167**	285,990
D M Kemp (Finance Director)	**226,000**	–	**20,717**	**3,024**	**249,741**	170,016
P M Collins (Director and COO)	**226,000**	–	**20,717**	**4,719**	**251,436**	266,000
M J David (Technical Director)	**226,000**	–	**20,717**	**6,691**	**253,408**	238,500
J A Church (Company Secretary)	**150,000**	–	**13,750**	**5,873**	**169,623**	225,333
Dr. P A Smith (Resigned 26 May 2011)	–	–	–	–	–	94,167
Total	**1,268,166**	–	**96,618**	**25,757**	**1,390,541**	1,420,954

Share Options Incentivisation

Name	Held at 1 Jan 2012 and 31 Dec 2012	Exercise Price p	Issue Date	Expiry Date	Type
KP Watts	209,302	43.00	13/03/11	12/03/21	***
	209,302				
M J Stanton	156,977	43.00	13/03/11	12/03/21	***
	156,977				
T E Jones	139,535	43.00	13/03/11	12/03/21	***
	139,535				
M S Newman	139,535	43.00	01/07/11	01/07/21	***
	139,535				
M N Groves Gidney	1,048,725	1.00	11/03/11	10/03/21	*
	1,744,186	43.00	13/03/11	12/03/21	**
	540,000	27.12	01/12/11	01/12/21	**
	3,332,911				
D M Kemp	106,200	1.00	11/03/11	10/03/21	*
	139,535	43.00	13/03/11	12/03/21	***
	1,604,651	43.00	11/07/11	11/07/21	****
	641,975	1.00	11/07/11	11/07/21	*****
	540,000	27.12	01/12/11	01/12/21	**
	3,032,361				
P M Collins	1,048,725	1.00	11/03/11	10/03/21	*
	1,744,186	43.00	13/03/11	12/03/21	**
	540,000	27.12	01/12/11	01/12/21	**
	3,332,911				
M J David	581,395	43.00	13/03/11	12/03/21	**
	540,000	27.12	01/12/11	01/12/21	**
	1,121,395				
J A Church (Company Secretary)	420,375	1.00	11/03/11	10/03/21	*
	1,162,790	43.00	13/03/11	12/03/21	**
	360,000	27.12	01/12/11	01/12/21	**
	1,943,165				
Total	13,408,092				

*** Pre IPO Options**
The options were granted subject to a successful equity raise at the time of the IPO in March 2011 and may be exercised from 18 March 2012.

**** Trap Oil Group plc Unapproved Share Option Plan 2011**
The options vest in equal portions over a three-year period from the date of grant, and are subject to the completion of certain specified performance conditions.

***** Individual Option Agreements**
Subject to the Model Code for Securities Transactions by Directors of Listed Companies, the AIM Rules or the Criminal Justice Act 1993, the options (to the extent that they have not lapsed) may be exercised at any time after the date of grant.

****** Trap Oil Group plc Unapproved Share Option Plan 2011**

The options vest in equal portions over a three-year period from 25 March 2011, and are subject to the completion of certain specified performance conditions.

******* Trap Oil Group plc Unapproved Share Option Plan 2011**

The options granted to Mr D M Kemp are not subject to any performance conditions and may be exercised, in whole or in part, at any time from 25 March 2013 up to the tenth anniversary of the date of grant. These options were granted at a discount by way of compensation for options and other benefits surrendered in respect of his former employment in accepting the position of Finance Director.

Mr K P Watts
Chairman of the Remuneration Committee
27 March 2013

Directors' Responsibilities

Statement of Directors' Responsibilities

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 have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. In preparing these financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board ("IASB"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for the year. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Company will continue in business.

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 the Group 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 the Group 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of Information to the Auditors

Having made enquiries of fellow Directors and of the Company's Auditors, each of the Directors confirms that, to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's Auditors are unaware; and each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of the 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.

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as Auditors will be proposed at the forthcoming Annual General Meeting at a fee to be agreed in due course by the Audit Committee and the Directors.

Annual General Meeting

The Annual General Meeting will be held on 2 May 2013 as stated in the Notice of Meeting.

On behalf of the Board.

Mr D M Kemp
Finance Director
27 March 2013

Independent Auditors' Report

We have audited the Group financial statements of Trap Oil Group plc for the year ended 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, and the related notes. 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.

Respective Responsibilities of Directors and Auditors

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.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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.

Opinion on Financial Statements

In our opinion the consolidated financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its loss and cash flows for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

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

- 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.

Other Matter

We have reported separately on the parent company financial statements of Trap Oil Group plc for the year ended 31 December 2012.

Mark Higginson

Mark Higginson
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
Aberdeen
27 March 2013

Consolidated Financial Statements

David Kemp / Finance Director

Group remains well funded at 31 December 2012 with total cash resources of £9.3m and, since January 2013, access to a US$20m senior secured debt facility. Cash resources are expected to be augmented by strong cashflow from the Athena producing asset.

Anticipated capital expenditure in 2013 will be up to £5m. Our proposed three well drilling programme is fully carried and hence costs are paid by our partners. Expenditure will principally relate to ongoing technical work to prepare for drilling in 2014.

Loss of £10.9m increased from 2011. Principally due to a non-cash impairment charge of £6.8m incurred following relinquishment of three licences, including Inverewe asset and unsuccessful Magnolia exploration well.

Active portfolio management generated £2.5m, with £1.0m from the sale of Lacewing and a further payment of £1.5m received from Centrica to exit the Inverewe prospect.

Capital investments of £28.2m made in 2012, mainly to acquire a 15% working interest in the Athena producing field and to drill the Orchid prospect.

Gross proceeds from the equity raise in June 2012 of £4.3m.

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2012

	Notes	2012 £	2011 £
CONTINUING OPERATIONS			
Revenue		**1,674,698**	807,044
Cost of sales		**(9,812,361)**	(786,309)
GROSS (LOSS)/PROFIT		**(8,137,663)**	20,735
Other operating income	**6**	**172,245**	–
Administrative expenses		**(3,002,611)**	(4,501,659)
OPERATING LOSS		**(10,968,029)**	(4,480,924)
Finance costs	**7**	**(68,495)**	(291,099)
Finance income	**7**	**174,707**	245,727
LOSS FOR THE YEAR BEFORE TAX	**8**	**(10,861,817)**	(4,526,296)
Tax	**9**	**–**	–
LOSS FOR THE YEAR		**(10,861,817)**	
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(10,861,817)**	(4,526,296)
Total loss for the year and comprehensive income attributable to:			
Owners of the parent		**(10,861,817)**	(4,526,296)
Loss per share expressed in pence per share:	**10**		
Basic		**(5.00)**	(2.74)
Diluted		**(5.00)**	(2.74)

The notes on pages 35 to 50 are an integral part of these accounts

Consolidated Statement of Financial Position
As at 31 December 2012

	Notes	2012 £	2011 £
NON-CURRENT ASSETS			
Intangible assets – Exploration costs	11	**25,193,180**	30,085,588
Intangible assets – Data licence costs	11	**1,833,332**	2,333,332
Property, plant and equipment	12	**28,093,548**	23,539
		55,120,060	32,442,459
CURRENT ASSETS			
Trade and other receivables	13	**1,625,311**	1,102,100
Cash and cash equivalents (including restricted cash)	14	**9,275,542**	32,418,234
		10,900,853	33,520,334
TOTAL ASSETS		**66,020,913**	65,962,793
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	15	**2,259,104**	2,053,731
Share premium account		**68,101,922**	64,222,583
Share options reserve		**2,341,644**	1,774,310
Retained earnings/(deficit)		**(16,985,796)**	(6,123,979)
Reorganisation reserve		**(382,543)**	(382,543)
TOTAL EQUITY		**55,334,331**	61,544,102
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	16	**2,645,228**	3,291,101
Provisions for liabilities and charges	17	**5,176,396**	–
		7,821,624	3,291,101
CURRENT LIABILITIES			
Trade and other payables	16	**2,864,958**	1,127,590
TOTAL LIABILITIES		**10,686,582**	4,418,691
TOTAL EQUITY AND LIABILITIES		**66,020,913**	65,962,793

The financial statements on pages 31 to 50 were approved by the Board of Directors and authorised for issue on 27 March 2013. They were signed on its behalf by Mr. D M Kemp – Finance Director.

The notes on pages 35 to 50 are an integral part of these accounts

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2012

	Called up share capital £	Share premium account £	Share options reserve £	Retained earnings/ (deficit) £	Re-organisation reserve £	**Total equity £**
At 1 January 2011	9,040	94,501	–	(1,597,683)	–	**(1,494,142)**
Issue of share capital	1,653,711	69,223,832	–	–	–	**70,877,543**
Cost of issue of share capital	–	(5,001,249)	534,838	–	–	**(4,466,411)**
Group reorganisation	390,980	(94,501)	–	–	(382,543)	**(86,064)**
Loss for the year and total comprehensive income	–	–	–	(4,526,296)	–	**(4,526,296)**
Transactions with owners – share based payments (note 18)	–	–	1,239,472	–	–	**1,239,472**
At 31 December 2011	2,053,731	64,222,583	1,774,310	(6,123,979)	(382,543)	**61,544,102**
Issue of share capital (note 15)	205,373	4,107,460	–	–	–	**4,312,833**
Cost of issue of share capital (note 15)	–	(228,121)	–	–	–	**(228,121)**
Loss for the year and total comprehensive income	–	–	–	(10,861,817)	–	**(10,861,817)**
Transactions with owners – share based payments (note 18)	–	–	567,334	–	–	**567,334**
At 31 December 2012	**2,259,104**	**68,101,922**	**2,341,644**	**(16,985,796)**	**(382,543)**	**55,334,331**

The notes on pages 35 to 50 are an integral part of these accounts

Consolidated Statement of Cash Flows For the Year Ended 31 December 2012

	Notes	2012 £	2011 £
Cash flows from operating activities			
Cash used in operations	**21**	**(1,082,496)**	(2,438,520)
Net cash used in operating activities		**(1,082,496)**	(2,438,520)
Cash flows from investing activities			
Purchase of intangible assets	**11**	**(5,141,129)**	(32,729,100)
Purchase of property, plant and equipment	**12**	**(23,062,638)**	(27,359)
Sale proceeds of intangible assets	**11**	**2,584,152**	2,727,660
Interest received		**174,707**	245,727
Net cash used in investing activities		**(25,444,908)**	(29,783,072)
Cash flows from financing activities			
Loan notes repaid		**–**	(992,700)
CGG Veritas repaid		**(700,000)**	(1,000,000)
Proceeds from share issue	**15**	**4,084,712**	66,325,075
Net cash generated from financing activities		**3,384,712**	64,332,375
(Decrease)/Increase in cash and cash equivalents	**21**	**(23,142,692)**	32,110,783
Cash and cash equivalents at beginning of year	**21**	**32,418,234**	307,451
Cash and cash equivalents at end of year	**21**	**9,275,542**	32,418,234

The notes on pages 35 to 50 are an integral part of these accounts

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

1. General Information

Trap Oil Group plc ('the Company') and its subsidiaries (together, 'the Group') are involved in the exploration, development and production of oil and gas reserves from the UK Continental Shelf and during the year production of hydrocarbons commenced from the Lybster field.

The Company is a public limited company, which is listed on AIM, a market operated by the London Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is 10 The Triangle, ng2 Business Park, Nottingham, NG2 1AE.

New Statutory Holding Company
Trap Oil Group plc was incorporated and registered on 24 January 2011. On 11 March 2011, a new statutory holding company structure became effective by way of a share for share exchange between the shareholders of Predator Oil Ltd (the previous holding company) and Trap Oil Group plc (the new holding company) and the Group became Trap Oil Group plc.

As a consequence of the reorganisation, the comparative figures of Trap Oil Group plc (the 'Group') for the period ended 31 December 2011 comprise the results of Predator Oil Ltd for the 12 months ended 31 December 2011 consolidated with those of Trap Oil Group plc from 11 March 2011.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of Accounting
These financial statements have been prepared under the historic cost convention modified for fair values, in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union ("IFRS") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis.

Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group
There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Company.

Below is a list of amended standards that have been issued and are effective for years starting on or after 1 January 2012:

IFRS	1	'First time adoption' (effective 1 July 2011)
IFRS	7	'Financial instruments: Disclosures' (effective 1 July 2011 and 16 December 2011)
IAS	12	'Income taxes' (effective 1 January 2012)

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 January 2012 and not early adopted:

There are no IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group other than IFRS 10 Consolidated financial instruments. The standard will apply to the consolidation of the Group's results for the annual accounting period starting 1 January 2013.

Accounting Estimates
The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the date of the financial statements. If in future such estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. The Group's accounting policies make use of accounting estimates and judgements in the following areas: amortisation, impairment, decommissioning, depreciation and the estimation of share based payment costs. These are described in more detail in the relevant accounting policies.

Basis of Consolidation

(a) Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses the existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the Group ceases to have control.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

2. Significant Accounting Policies – (continued)

the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.
The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries
When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of comprehensive income.

At 31 December 2012, the Company's subsidiary undertakings, all of which are registered and incorporated in the United Kingdom, and included in the consolidated Group financial information, were:

Predator Oil Ltd – 100% Ordinary A shares and 100% Ordinary shares
Trap Oil Ltd – 100% Ordinary shares
Trap Oil & Gas Ltd – 100% Ordinary shares
Trap Exploration (UK) Ltd – 100% Ordinary shares
Trap Petroleum Ltd – 100% Ordinary shares

The principal activities of all of the subsidiary entities relate to oil and gas exploration, development and production.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

Acquisitions, Asset Purchases and Disposals
Acquisitions of oil and gas properties are accounted for under the purchase method where the business meets the definition of a business combination.

Transactions involving the purchase of an individual field interest, or acquisitions of exploration and evaluation licenses for which a development decision has not yet been made that do not qualify as a business combination, are treated as asset purchases. Accordingly, no goodwill or deferred tax arises. The purchase consideration is allocated to the assets and liabilities purchased on an appropriate basis. Proceeds on disposal are applied to the carrying amount of the specific intangible asset or development and production assets disposed of and any surplus is recorded as a gain on disposal in the consolidated statement of comprehensive income.

Revenue Recognition
Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for services supplied, stated net of discounts, returns and value added tax. Revenue is derived from the principal activities of the Group. The Group is involved in the analysis of seismic data and information for the exploitation and development of oil and gas reserves in the UK Continental Shelf. Revenue is derived from strategic partners on the identification of opportunities for application for a licence to explore further and is recognised at the point the invoice is raised or the date a trigger event occurs if this is later.

The Group also receives revenue from the production of hydrocarbons from licences held by the Group that is recognised at the end of each month based upon the quantity and price of oil and gas delivered to the customer.

Exploration and Evaluation costs
The Group accounts for oil and gas and exploration and evaluation costs assets using IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Such costs are initially capitalised as Intangible Assets and include payments to acquire the legal right to explore, together with the directly related costs of technical services and studies, seismic acquisition, exploratory drilling and testing.

Exploration costs are not amortised prior to the conclusion of appraisal activities.

Exploration costs included in Intangible Assets relating to exploration licences and prospects are carried forward until the existence (or otherwise) of commercial reserves have been determined subject to certain limitations including review for indications of impairment. If commercial reserves are discovered, the carrying value, after any impairment loss of the relevant assets, is then reclassified as a Tangible Asset under Production interests and fields under development. If, however, commercial reserves are not found, the capitalised costs are charged to the consolidated statement of comprehensive income. If there are indications of impairment prior to the conclusion of exploration activities, an impairment test is carried out.

Data Licence
Acquired data licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific licence. These costs are amortised over the life of the licence of 8 years.

Production Interests & Fields Under Development
Such assets are accumulated generally on a field by field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the exploration costs incurred in finding commercial reserves transferred from Intangible Assets.

The costs also include the acquisition and purchase of such assets, directly attributable overheads and the cost of recognising provisions for future restoration and decommissioning.

Amortisation, Depletion and Impairment of Oil and Gas Assets
All expenditure carried within each field is amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, on a field by field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs to access the related commercial reserves. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Where there has been a change in economic conditions that indicate a possible impairment in an oil and gas asset, the recoverability of the net book value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs. Any impairment identified is charged to the consolidated statement of comprehensive income as additional depletion and amortisation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the consolidated statement of comprehensive income, net of any depreciation that would have been charged since the impairment.

Decommissioning and Site Restoration
Provision for decommissioning and site restoration is recognised in full when the related facilities are installed and the field commences production. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related Production Interest. The amount recognised is the estimated cost of decommissioning and site restoration, discounted to its net present value and is reassessed each year in accordance with existing conditions and requirements. Changes in the estimated timing of cost estimates are dealt with as an adjustment to the provision and a corresponding adjustment to the Production Interest. The unwinding of the discount on the decommissioning provision is included as a finance cost.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

2. Significant Accounting Policies – (continued)

Property, Plant and Equipment
Property, plant and equipment is stated at historic purchase cost less accumulated depreciation. Asset lines and residual amounts are reassessed each year. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation on these assets is calculated on a straight line basis as follows:

Computer equipment 3 years

Joint Ventures
The Group participates in several joint venture agreements with strategic partners, where revenue is derived from annual retainers and success fees in a combination of cash and carried interests. The Group accounts for its share of assets, liabilities, income and expenditure of these joint venture agreements and discloses the details in the appropriate statement of financial position and income statement headings in the proportion that relates to the Group per the joint venture agreement.

Financial Instruments
Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument. The Group does not have any derivative financial instruments.

Fixed asset investments in subsidiaries are stated at cost less accumulated impairment in the Company only statement of financial position and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

Cash and cash equivalents include cash in hand and deposits held on call with banks with a maturing of three months or less.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss will be recognised in the consolidated statement of comprehensive income within Selling and marketing costs. When a trade receivable is uncollectible, it will be written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against Selling and marketing costs in the consolidated statement of comprehensive income.

Trade payables are stated initially at fair value and subsequently measured at amortised cost.

Loan notes are stated initially at fair value and subsequently measured at amortised cost of the investment as agreed in the loan instrument.

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. Deferred taxation liabilities are provided, using the liability method, on all taxable temporary differences at the reporting date. Such assets and liabilities are not recognised if the temporary difference arises from 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 income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date.

Foreign Currencies
Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the reporting date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Gains and losses arising on retranslation are recognised in the consolidated statement of comprehensive income for the year.

Employee Benefit Costs
The Group operates a defined contribution pension scheme. Matching contributions are made by the employer and employees up to 10% each of salary and also as part of and in addition to a personal salary sacrifice scheme. Contributions payable are charged to the statement of comprehensive income in the period to which they relate.

Share Based Payments
Equity settled share based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

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 equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity settled employee benefits reserve.

Equity settled share based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Share Capital
Ordinary shares are classified as equity.

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

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders.

Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors.

3. Segmental Reporting

The Directors consider that the Group operates in a single segment, that of oil and gas exploration and production, in a single geographical location, the North Sea of the United Kingdom and do not consider it appropriate to disaggregate data further from that disclosed.

4. Financial Risk Management

The Group's activities expose it to financial risks and its overall risk management programme focuses on minimising potential adverse effects on the financial performance of the Group. The Company's activities are also exposed to risks through its investments in subsidiaries and is accordingly exposed to similar financial and capital risks as the Group.

Risk management is carried out by the Directors and they identify, evaluate and address financial risks in close co-operation with the Group's management. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange risks and investing excess liquidity.

Credit Risk
The Group's credit risk primarily relates to its trade receivables. Responsibility for managing credit risks lies with the Group's management.

A customer evaluation is typically obtained from an appropriate credit rating agency. Where required, appropriate trade finance instruments such as letters of credit, bonds, guarantees and credit insurance will be used to manage credit risk.

The Group's major customers are typically blue chip companies which have strong credit ratings assigned by international credit rating agencies. Where a customer does not have sufficiently strong credit ratings, alternative forms of security such as the trade finance instruments referred to above may be obtained.

Management review trade receivables across the Group based on receivable days calculations to assess performance. There is significant management focus on receivables that are overdue. Trade receivable days for the Group for the year ended 31 December 2012 were 4 days (2011: 218 days), based on the ratio of Group trade receivables at the end of the year to the amount invoiced during the year by trade creditors.

The Group also has a number of joint venture arrangements where partners have made commitments to fund certain expenditure. Management evaluate the credit risk associated with each contract at the time of signing and continually monitor the credit worthiness of our partners.

Liquidity Risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they become due. The Group manages its liquidity through continuous monitoring of cash flows from operating activities, review of actual capital expenditure programmes, and managing maturity profiles of financial assets and financial liabilities. These activities ensure that the Group has sufficient funds to meet its financial obligations as they become due. Note 20 summarises the post year-end activity relating to the Group obtaining a Borrowing Base Facility of US$20m from GE Energy Financial Services.

Capital Risk Management
The Group seeks to maintain an optimal capital structure. The Group considers its capital to comprise both equity and net debt.

The Group monitors its capital structure on the basis of its net debt to equity ratio. Net debt to equity ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowing less cash and cash equivalents. Total equity comprises all components of equity.

The ratio of net debt to equity as at 31 December 2012 is Nil (2011: Nil).

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

5. Employees and Directors

	2012 £	2011 £
Wages and salaries	**1,554,709**	1,633,218
Share based payments (note 18)	**567,334**	1,239,472
Social security costs	**200,401**	129,090
Other pension costs	**295,916**	138,295
	2,618,360	3,140,075

	2012	2011
The average monthly number of employees during the year was as follows:		
Directors	**8**	8
Employees	**6**	2
	14	10

	2012 £	2011 £
Directors' remuneration	**1,014,234**	1,116,253
Directors' pension contributions to money purchase scheme	**186,800**	112,765
Key management remuneration	**113,758**	–
Key management pension contributions to money purchase scheme	**49,992**	–
	1,364,784	1,229,288

The number of directors to whom retirement benefits were accruing was as follows:

	2012	2011
Money purchase schemes	**4**	3

	2012 £	2011 £
Information regarding the highest paid director is as follows:		
Emoluments	**202,784**	211,823
Pension contributions	**43,933**	14,167

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

6. Other Operating Income

On 9 February 2012 the sale of the Group's 10% working interest in its Lacewing asset (P.1181, Block 23/22b) to ConocoPhillips (U.K.) Ltd was completed for a consideration of £1m in cash realising a gain on disposal of £172,245, as shown in the consolidated statement of comprehensive income as Other operating income.

7. Net Finance Costs

	2012 £	2011 £
Finance income:		
Interest received	**174,707**	245,727
Finance costs:		
CGGVeritas interest (note 16)	**54,128**	291,099
Unwinding of discount on production interests (note 17)	**14,367**	–
Net finance costs	**106,212**	(45,372)

8. Loss Before Tax

The loss before tax is stated after charging:

	2012 £	2011 £
Cost of sales recognised as expense (excluding amortisation & impairment)	**1,568,303**	784,243
Depreciation	**972,257**	5,591
Intangible asset amortisation	**500,000**	502,066
Impairment of intangible assets	**6,804,031**	–
Auditors' remuneration – audit of parent company and consolidation	**26,247**	23,500
Auditors' remuneration – audit of subsidiaries	**16,753**	15,000
Auditors' remuneration – non audit services	**–**	26,980
Foreign exchange loss	**4,001**	1,843

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

9. Tax

Factors Affecting the Tax Charge
Trap Oil Group plc is a trading group but no liability to UK corporation tax arose on the ordinary activities for the year ended 31 December 2012 or for the period ended 31 December 2011 due to the losses incurred.

Reconciliation of Tax Charge

	2012 £	2011 £
Loss before tax	**(10,861,817)**	(4,526,296)
Tax at the domestic rate of 20% (2011 – 21%)	**(2,172,363)**	(950,522)
Expenses not deductable for tax purposes and non-taxable income	**692,992**	153,569
Deferred tax asset not recognised	**1,479,371**	796,953
Total tax expense reported in the consolidated statement of comprehensive income	**–**	–

The tax rate used is the small company rate on the basis that when the losses are relieved it would be at this rate first. However the effect of the supplementary charge on ring fenced profits can increase the effective rate of corporation tax to 62%.

The deferred tax asset has not been recognised in the statement of financial position as it is currently not possible with any degree of certainty to calculate the value of this asset and the time scale over which the asset would be recovered. The Group has corporation tax retained losses at 31 December 2012 of £16m (2011: £7m).

10. Loss Per Share

Basic loss per share is calculated by dividing the losses attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share is calculated using the weighted average number of shares adjusted to assume the conversion of all dilutive potential ordinary shares. As a loss was recorded for the current year and prior period, the issue of potential ordinary shares would have been anti-dilutive in both periods (see note 18 for share options in place at the end of the year).

	Loss attributable to ordinary shareholders £	Weighted average number of shares	Per-share amount pence
Year ended 31 December 2012			
Basic and Diluted EPS			
Loss attributable to ordinary shareholders	**(10,861,817)**	**217,020,291**	**(5.00)**
Period ended 31 December 2011			
Basic and Diluted EPS			
Loss attributable to ordinary shareholders	(4,526,296)	165,398,816	(2.74)

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

11. Intangible Assets

	Exploration costs £	Data licence costs £	**Totals £**
COST			
At 1 January 2011	86,214	4,000,000	**4,086,214**
Additions	2,340,266	–	**2,340,266**
Acquisition of assets(1)	30,388,834	–	**30,388,834**
Disposals(2)	(2,727,660)	–	**(2,727,660)**
At 31 December 2011	**30,087,654**	**4,000,000**	**34,087,654**
Additions	5,141,129	–	**5,141,129**
Disposals	(2,411,907)	–	**(2,411,907)**
Transfer to tangible assets (note 12)	(817,599)	–	**(817,599)**
At 31 December 2012	**31,999,277**	**4,000,000**	**35,999,277**
ACCUMULATED AMORTISATION			
At 1 January 2011	–	1,166,668	**1,166,668**
Amortisation for the period	2,066	500,000	**502,066**
At 31 December 2011	**2,066**	**1,666,668**	**1,668,734**
Amortisation for the year	–	500,000	**500,000**
Impairment(3)	**6,804,031**	**–**	**6,804,031**
At 31 December 2012	**6,806,097**	**2,166,668**	**8,972,765**
NET BOOK VALUE			
At 31 December 2012	**25,193,180**	**1,833,332**	**27,026,512**
At 31 December 2011	30,085,588	2,333,332	32,418,920
At 1 January 2011	86,214	2,833,332	2,919,546

Assets and liabilities related to the exploration and evaluation of mineral resources other than those presented above are as follows:

	2012 £	2011 £
Receivables from joint venture partners	**1,127,830**	2,447,117
Payable to subcontractors and operators	**190,710**	45,164

Cash payments of £5,141,129 (2011: £2,340,266) have been incurred relating to exploration and evaluation activities.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

11. Intangible assets – (continued)

The net cash proceeds due from the disposal of interests included in Exploration costs is as follows:

	2012 **£**	2011 £
P.1181 Lacewing (note 6)	**1,000,000**	–
P.1864 Inverewe (Kew)	**1,584,152**	2,727,660
	2,584,152	2,727,660

(1) valuation of exploration licences held in Trap Oil & Gas Ltd (formerly Reach Oil & Gas Ltd) and subsidiaries at purchase price using the asset purchase method.

(2) relates to the disposal of a part interest in the P.1864 Inverewe (Kew) licence block.

(3) an impairment charge of £6,804,031 is included in Cost of sales in the consolidated statement of comprehensive income as an impairment trigger was identified requiring a full impairment review to be carried out in accordance with IAS 36 “Impairment of assets”. An economic assessment of all assets was carried out as at 31 October 2012, using the economic value models (EMV) and the completion of the Magnolia exploration well in March 2013 in which no significant hydrocarbons were encountered.

The recoverable amounts are determined with reference to forecast cash inflows and outflows generated by the licenses. The recoverable amount exceeded its carrying value at the impairment test date. Reasonable possible changes in the key assumptions such as discount rates and oil prices would not cause the recoverable amount of the intangible assets to be equal to or less than the carrying amount.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

12. Property, Plant and Equipment

	Production interests & fields under development £	Computer equipment £	**Totals £**
COST			
At 1 January 2011	–	2,656	**2,656**
Additions	–	27,359	**27,359**
At 31 December 2011	–	**30,015**	**30,015**
Additions	28,148,173	76,494	**28,224,667**
Transfer from intangible assets (note 11)	817,599	–	**817,599**
At 31 December 2012	**28,965,772**	**106,509**	**29,072,281**
ACCUMULATED DEPRECIATION			
At 1 January 2011	–	885	**885**
Charge for period	–	5,591	**5,591**
At 31 December 2011	**–**	**6,476**	**6,476**
Charge for year	940,027	32,230	**972,257**
At 31 December 2012	**940,027**	**38,706**	**978,733**
NET BOOK VALUE			
At 31 December 2012	**28,025,745**	**67,803**	**28,093,548**
At 31 December 2011	–	23,539	23,539
At 1 January 2011	–	1,771	1,771

On 21 December 2012 the Group completed the acquisition of a 15% working interest in the Athena oil field from Dyas UK Ltd for a net cash consideration of £21.8m. £22.9m has been included in Additions, with the balancing amount representing working capital balances assumed at acquisition.

The depreciation charge for Production interests & fields under development is included within Cost of sales in the consolidated statement of comprehensive income and the charge for computer equipment is included in Administrative expenses.

13. Trade and Other Receivables

	2012 £	2011 £
Current:		
Trade receivables (net)	**20,764**	483,454
Other receivables	**1,341,168**	30,418
Value added tax	**133,564**	97,498
Prepayments	**129,815**	490,730
	1,625,311	1,102,100

The Directors consider that the carrying amount of Trade and other receivables approximates their fair value.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

14. Cash and Cash Equivalents

	2012 £	2011 £
Unrestricted cash in bank accounts	**8,732,655**	29,974,570
Restricted cash in escrow bank accounts	**542,887**	2,443,664
	9,275,542	32,418,234

The restricted cash relates to amounts held in escrow as security for possible future liabilities to third parties.

15. Called up Share Capital

Issued and fully paid:

Number:	Class:	Nominal value:	2012 £	2011 £
225,910,417	Ordinary	1p	**2,259,104**	2,053,731
(2011: 205,373,117)				

During the year 20,537,300 ordinary shares were issued which raised £4,312,833 (gross) in additional capital. The net proceeds from the share issue were £4,084,712. The number of share options outstanding is 15,688,212 (note 18).

16. Trade and Other Payables

	2012 £	2011 £
Current:		
Trade payables	**376,227**	117,657
Accrued expenses	**216,946**	1,009,933
Other payables	**2,271,785**	–
	2,864,958	1,127,590
Non-current:		
Other payables	**2,645,228**	3,291,101
Aggregate amounts	**5,510,186**	4,418,691

Included in Non-current: Other payables is £2,300,000 (2011: £3,000,000) and capitalised interest of £345,228 (2011: £291,101) which relates to the consideration for the data licence obtained from CGG Veritas which has been capitalised under Intangible Assets. The term of the licence is 8 years and the final liability is due on expiry of the licence in August 2016. On the first two success fees that were obtained from using the data from the licence £350,000 each has been paid as part of the consideration with £300,000 becoming due on each subsequent success fee. Any balance remaining when the licence expires is due on that date and shall attract interest at LIBOR plus 1% per annum.

Trap Oil Ltd has a £2m overdraft facility with National Westminster Bank plc which is secured by a debenture in the name of Trap Oil Ltd, a cross guarantee within the Group and on the shares of Trap Oil Ltd held by Predator Oil Ltd. The overdraft facility is currently undrawn. The overdraft facility expires on 31 May 2013.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

17. Provisions for Liabilities and Charges

	Decommissioning and site restoration £
At 1 January 2012	–
New provision	**5,162,029**
Unwinding of discount	**14,367**
At 31 December 2012	**5,176,396**

The Group recognises decommissioning and site restoration provisions in relation to production interests. The provisions are based on the discounted net present value of the assessment of the obligation to decommission assets in place at the reporting date. The provision will increase as additional infrastructure is installed, as needed, and will be settled on the actual decommissioning of fields. The new provision created during the year relates to the Athena and Lybster producing assets. It is expected that the decommissioning work will start after the production has ceased. Cessation of production is currently expected in 2013 for Lybster and in 2017 for Athena.

18. Share Based Payments

The Group operates a number of share option schemes. Options are exercisable at the prices set out in the table below. Options are forfeited if the employee leaves the Group through resignation or dismissal before the options vest.

Equity-settled share based payments are measured at fair value at the date of grant. The fair value determined at the date of grant of equity-settled share based payments is expensed on a straight line basis over the vesting period, based upon the Group's estimate of shares that will eventually vest.

The total expense included within the operating results in respect of equity-based share-based payments was £567,334 (2011: £1,239,472) and for the current year £Nil (2011: £534,838) has been included within the share premium account as part of the cost of raising capital.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

18. Share based payments – (continued)

The Group share option schemes are for Directors, officers and employees and details of outstanding options are set out in the table below:

Date Of Grant	Exercise price pence	Vesting Date	Expiry date	No. of shares for which options outstanding at 1 January 2012	Options granted during the year	No. of shares for which options outstanding at 31 December 2012
Pre IPO Options						
March 2011	1.00	Vested	March 2021	3,672,750	–	3,672,750
Under the Trap Oil Group plc Unapproved Share Option Plan 2011 and Individual Option Agreements						
March 2011	43.00	Vested	March 2021	2,505,813	–	2,505,813
March 2011	43.00	March 2013	March 2021	1,744,186	–	1,744,186
March 2011	43.00	March 2014	March 2021	1,744,186	–	1,744,186
July 2011	43.00	July 2011	July 2021	139,535	–	139,535
July 2011	43.00	March 2012	July 2021	534,883	–	534,883
July 2011	43.00	March 2013	July 2021	534,884	–	534,884
July 2011	43.00	March 2014	July 2021	534,884	–	534,884
July 2011	1.00	March 2013	July 2021	641,975	–	641,975
July 2011	43.00	July 2012	July 2021	155,038	–	155,038
July 2011	43.00	July 2013	July 2021	155,039	–	155,039
July 2011	43.00	July 2014	July 2021	155,039	–	155,039
December 2011	27.12	December 2012	December 2021	1,056,666	–	1,056,666
December 2011	27.12	December 2013	December 2021	1,056,667	–	1,056,667
December 2011	27.12	December 2014	December 2021	1,056,667	–	1,056,667
					Total	**15,688,212**

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was 28.22p per option. The significant inputs into the model were the mid market share price on the day of grant or 1p, exercise price as shown above and an annual risk-free interest rate of 1.1%. The volatility measured at the standard deviation of continuously compounded share returns is based on a statistical analysis of daily share prices from the date of admission to AIM to the date of grant on an annualised basis.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

19. Guarantees

On 21 December 2012 the Group completed the acquisition of a 15% working interest in the Athena oil field from Dyas UK Ltd for £21.8m, which is included in Property, plant and equipment, Additions.

In connection with the acquisition, Trap Oil Group plc has entered into Parent Company Guarantees in favour of:

BW Offshore (UK) Ltd – Trap Oil Group plc has entered into a guarantee for the purpose of providing security to BW Offshore (UK) Ltd in relation to the obligations of Trap Oil Ltd in respect of a Contract for the Provision and Operation of a Floating Production, Storage and Offloading Vessel for the Athena Field Development dated 8 September 2010 with Ithaca Energy (UK) Ltd.

EWE Vertrieb GmbH – Trap Oil Group plc has entered into an undertaking for the purpose of providing security to EWE Vertrieb GmbH in relation to the obligations of Trap Oil Ltd in respect of the Joint Operating Agreement and certain other agreements related to the Athena Oil Field dated 12 February 2007.

In addition, a letter of credit was established on 20 December 2012 for £350,000 in favour of Ithaca Energy (UK) Ltd as security for anticipated obligations under the Athena field Joint Operating Agreement.

20. Post Reporting Date Events

Borrowing Base Facility and Hedging Arrangements
On 29 January 2013 the Group entered into a three year senior secured borrowing base facility agreement of US$20 million with an affiliate of GE Energy Financial Services secured by a first fixed and floating charge for all Group companies and a first equitable mortgage over the existing shares and any further shares in Predator Oil Ltd and Trap Oil Ltd and a share pledge over Trap Oil & Gas Ltd, Trap Exploration (UK) Ltd and Trap Petroleum Ltd in the event of non-payment and associated hedging arrangements with Britannic Trading Ltd, a subsidiary of BP International Ltd.

In conjunction with and for the term of the borrowing base facility, the Group entered into oil price hedging arrangements. These arrangements consist of swap agreements, entered into at prices ranging from US$108.51/barrel for 2013 to US$95.50/barrel for 2015 with Britannic Trading Ltd to provide greater visibility in respect of future cash flows arising from a significant proportion of the Group's near term forecast production as it continues to build its exploration and appraisal work programmes.

Trent East Terrace Farm-in
On 7 February 2013 the Group entered into a sale and purchase agreement to acquire a 33.33% working interest in Licence P.685 Trent East Terrace area, containing the Trent East gas discovery, from Perenco UK Ltd. The Group has committed to secure a drilling rig within six months for the planned appraisal well and it is currently anticipated that the Group's share of the drilling costs will be approximately £5m. The Group will also assume its share of the abandonment liability for the well via a letter of credit for £0.7m which will be provided from existing cash resources and is an eligible asset within the terms of the US$20m senior secured borrowing base facility with GE Energy Financial Services.

Orchid Equity Purchase
On 11 March 2013 the Group entered into a sale and purchase agreement to acquire a 45% working interest in Licence P.1556 containing the Orchid discovery from Summit Petroleum Limited for £1.5m.

Athena Purchase
At the reporting date the cost of the Group's interest in the Athena production licence had not been finalised. The aggregate amount shown in note 12 under Production interests & fields under development is an interim completion figure based on the information available at the reporting date and it is expected that on conclusion an amount of will be payable to the Group by Dyas UK Ltd.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2012

21. Notes to the Consolidated Statement of Cash Flows

RECONCILIATION OF LOSS BEFORE TAX TO CASH USED IN OPERATIONS

	2012 **£**	2011 £
Loss for the year before tax	**(10,861,817)**	(4,526,296)
Adjusted for:		
Depreciation charges	**972,257**	5,591
Amortisation and impairment charges	**7,304,031**	502,066
Profit on disposal of intangible assets	**(172,245)**	–
Share based payments (net)	**567,334**	1,239,467
Finance costs	**68,495**	291,099
Finance income	**(174,707)**	(245,727)
	(2,296,652)	(2,733,800)
Increase in trade and other receivables	**(523,212)**	(525,850)
Increase in trade and other payables	**1,737,368**	821,130
Cash used in operations	**(1,082,496)**	(2,438,520)

CASH AND CASH EQUIVALENTS

The amounts disclosed on the statement of cash flows in respect of cash and cash equivalents are in respect of these statements of financial position amounts:

Year ended 31 December 2012

	31 Dec 2012 **£**	1 Jan 2012 £
Cash and cash equivalents	**9,275,542**	32,418,234

Period ended 31 December 2011

	31 Dec 2011 £	1 Jan 2011 £
Cash and cash equivalents	32,418,234	307,451

Analysis of net debt

	At 1 Jan 2012 £	Cash flow £	**At 31 Dec 2012** **£**
Cash and cash equivalents	32,418,234	(23,142,692)	**9,275,542**
Net cash	32,418,234	(23,142,692)	**9,275,542**

Independent Auditors' Report to the Members of the Company

We have audited the parent company financial statements of Trap Oil Group plc for the year ended 31 December 2012 which comprise the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Company Statement of Cash Flow and the related notes. 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.

Respective Responsibilities of Directors and Auditors
As explained more fully in the Statement of Directors Responsibilities (page 28), 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.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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.

Opinion on Financial Statements
In our opinion the parent company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss and cash flows for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the Companies Act 2006.

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 parent company financial statements are prepared is consistent with the parent company 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.

Other Matter
We have reported separately on the Group financial statements of Trap Oil Group plc for the year ended 31 December 2012.

Mark Higginson

Mark Higginson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Aberdeen

27 March 2013

Company Statement of Financial Position
As at 31 December 2012

	Notes	2012 £	2011 £
NON-CURRENT ASSETS			
Property, plant and equipment	3	**55,994**	21,386
Investments	4	**31,942,632**	31,942,632
		31,998,626	31,964,018
CURRENT ASSETS			
Trade and other receivables	5	**30,234,321**	5,233,908
Cash and cash equivalents	6	**8,682,655**	29,924,571
		38,916,976	35,158,479
TOTAL ASSETS		**70,915,602**	67,122,497
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	7	**2,259,104**	2,053,731
Share premium account		**68,101,922**	64,222,583
Share options reserve		**2,341,639**	1,774,305
Retained deficit		**(2,013,014)**	(1,493,622)
TOTAL EQUITY		**70,689,651**	66,556,997
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	8	**225,951**	565,500
TOTAL LIABILITIES		**225,951**	565,500
TOTAL EQUITY AND LIABILITIES		**70,915,602**	67,122,497

The financial statements on pages 52 to 58 were approved by the Board of Directors and authorised for issue on 27 March 2013. They were signed on its behalf by Mr. D M Kemp – Finance Director.

Company Statement of Changes in Equity For the Year Ended 31 December 2012

	Called up share capital £	Share premium account £	Share options reserve £	Retained deficit £	**Total equity £**
On incorporation	–	–	–	–	**–**
Issue of share capital	2,053,731	69,223,832	–	–	**71,277,563**
Cost of issue of share capital	–	(5,001,249)	534,833	–	**(4,466,416)**
Loss for the period and total comprehensive income	–	–	–	(1,493,622)	**(1,493,622)**
Transactions with owners	–	–	1,239,472	–	**1,239,472**
Closing equity attributable to the Company's equity holders at 31 December 2011	2,053,731	64,222,583	1,774,305	(1,493,622)	**66,556,997**
Issue of share capital (note 7)	205,373	4,107,460	–	–	**4,312,833**
Cost of issue of share capital (note 7)	–	(228,121)	–	–	**(228,121)**
Loss for the year and total comprehensive income	–	–	–	(519,392)	**(519,392)**
Transactions with owners	–	–	567,334	–	**567,334**
Closing equity attributable to the Company's equity holders at 31 December 2012	**2,259,104**	**68,101,922**	**2,341,639**	**(2,013,014)**	**70,689,651**

The notes on pages 55 to 58 are an integral part of these financial statements

Company Statement of Cash Flows For the Year Ended 31 December 2012

	Notes	2012 £	2011 £
Cash flows from operating activities			
Cash used in operations	12	**(541,913)**	(108,758)
Net cash used in operating activities		**(541,913)**	(108,758)
Cash flows from investing activities			
Purchase of investments		**–**	(31,942,632)
Purchase of property, plant and equipment	3	**(63,807)**	(25,758)
Interest received		**160,758**	238,538
Net cash generated from investing activities		**96,951**	(31,729,852)
Cash flows from financing activities			
Proceeds from share issue	7	**4,084,712**	66,811,153
Loan to subsidiary companies		**(24,881,666)**	(5,047,972)
Net cash (used in)/generated from financing activities		**(20,796,954)**	61,763,181
(Decrease)/increase in cash and cash equivalents		**(21,241,916)**	29,924,571
Cash and cash equivalents at beginning of year	12	**29,924,571**	–
Cash and cash equivalents at end of year	12	**8,682,655**	29,924,571

The notes on pages 55 to 58 are an integral part of these financial statements

Notes to the Company Financial Statements For the Year Ended 31 December 2012

1. Significant Accounting Policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

These financial statements have been prepared under the historic cost convention modified for fair values, in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union ("IFRS") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis. The principal accounting policies adopted are consistent with those set out in note 2 to the consolidated financial statements. The financial risk management for the company is consistent with those set out in note 4 to the consolidated financial statements.

Investments in subsidiaries are stated at cost less, and where appropriate, provisions for impairment.

2. Loss of Parent Company

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the parent company is not presented as part of these financial statements.

The parent company's loss for the year was £519,392 (2011: loss of £1,493,622).

3. Property, Plant and Equipment

	Computer equipment £
COST	
Additions	25,758
At 31 December 2011	25,758
Additions	63,807
At 31 December 2012	**89,565**
ACCUMULATED DEPRECIATION	
Charge for the period	4,372
At 31 December 2011	4,372
Charge for the year	29,199
At 31 December 2012	**33,571**
NET BOOK VALUE	
At 31 December 2012	**55,994**
At 31 December 2011	21,386
At 1 January 2011	21,386

Notes to the Company Financial Statements For the Year Ended 31 December 2012

4. Investments

	Shares in group undertakings £
At 14 January 2011	–
Additions	31,942,632
At 31 December 2011 and at 31 December 2012	**31,942,632**

Investments in subsidiaries are stated at cost. At 31 December 2012, the Company's subsidiary undertakings, all of which are registered and incorporated in the United Kingdom, and included in the consolidated Group financial information were:

Predator Oil Ltd – 100% Ordinary A shares and 100% Ordinary shares
Trap Oil Ltd – 100% Ordinary shares
Trap Oil & Gas Ltd – 100% Ordinary shares
Trap Exploration (UK) Ltd – 100% Ordinary shares
Trap Petroleum Ltd – 100% Ordinary shares

The principal activities of all of the subsidiary entities relate to oil and gas exploration, development and production. The investments were recorded at cost.

5. Trade and Other Receivables

	2012 £	2011 £
Current:		
Trade debtors	**92**	–
Amounts owed by group undertakings	**29,929,637**	5,047,972
Other receivables	**188,392**	23,402
Value Added Tax	**12,035**	138,606
Prepayments	**104,165**	23,928
	30,234,321	5,233,908

Amounts shown as Current: Amounts owed by group undertakings – are repayable on demand.

6. Cash and Cash Equivalents

	2012 £	2011 £
Cash at bank	**8,682,655**	29,924,571

Notes to the Company Financial Statements For the Year Ended 31 December 2012

7. Called up Share Capital

Issued and fully paid:

Number:	Class:	Nominal value:	**2012 £**	2011 £
225,910,417	Ordinary	1p	**2,259,104**	2,053,731
(2011: 205,373,100)				

During the year the Company issued 20,537,300 ordinary shares from which it raised £4,312,833 (gross) in additional capital. The net proceeds from the share issue were £4,084,712.

8. Trade and Other Payables

	2012 £	2011 £
Current:		
Trade payables	**91,408**	54,384
Other creditors	**6,508**	–
Accrued expenses	**128,035**	511,116
	225,951	565,500

9. Related Party Disclosures

During the year Trap Oil Group plc made loans available to wholly owned subsidiaries. The balances outstanding at the end of the year are Predator Oil Ltd £7,116 (2011: £8,734), Trap Oil Ltd £29,673,498 (2011: £4,795,434), Trap Oil & Gas Ltd £85,230 (2011: £87,680), Trap Petroleum Ltd £148,775 (2011: £130,864) and Trap Exploration (UK) Ltd £15,018 (2011: £25,260) which are included in Trade and Other Receivables, as Amounts owed by group undertakings. During the year the Company also made sales to Trap Oil Ltd amounting to £2,808,060 (2011: £1,968,034).

10. Guarantees

In connection with the acquisition of a 15% working interest in the Athena oil field by the group company Trap Oil Ltd, the Company has entered into Parent Company Guarantees in favour of:

BW Offshore (UK) Ltd – Trap Oil Group plc has entered into a guarantee for the purpose of providing security to BW Offshore (UK) Ltd in relation to the obligations of Trap Oil Ltd in respect of a Contract for the Provision and Operation of a Floating Production, Storage and Offloading Vessel for the Athena Field Development dated 8 September 2010 with Ithaca Energy (UK) Ltd.

EWE Vertrieb GmbH – Trap Oil Group plc has entered into an undertaking for the purpose of providing security to EWE Vertrieb GmbH in relation to the obligations of Trap Oil Ltd in respect of the Joint Operating Agreement and certain other agreements related to the Athena Oil Field dated 12 February 2007.

Notes to the Company Financial Statements For the Year Ended 31 December 2012

11. Post Reporting Date Events

Borrowing Base Facility and Hedging Arrangements
On 29 January 2013 the Company entered into a three year senior secured borrowing base facility agreement of up to US$20m with an affiliate of GE Energy Financial Services and associated hedging arrangements with Britannic Trading Ltd, a subsidiary of BP International Ltd.

In conjunction with and for the term of the borrowing base facility, the Company entered into oil price hedging arrangements. These arrangements consist of swap agreements, entered into at prices ranging from US$108.51/barrel for 2013 to US$95.50/barrel for 2015 with Britannic Trading Ltd to provide greater visibility in respect of future cash flows arising from a significant proportion of the Group's near term forecast production as it continues to build its exploration and appraisal work programmes.

12. Notes to the Company Statement of Cash Flows

RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	2012 £	2011 £
Loss for the year before tax	**(519,392)**	(1,493,622)
Adjusted for:		
Depreciation charges (note 3)	**29,199**	4,372
Share based payments (net)	**567,334**	1,239,467
Finance income	**(160,758)**	(238,538)
	(83,617)	(488,321)
Increase in receivables	**(118,748)**	(185,936)
(Decrease)/Increase in trade and other payables	**(339,548)**	565,499
Cash used in operations	**(541,913)**	(108,758)

CASH AND CASH EQUIVALENTS

The amounts disclosed on the Statement of Cash Flows in respect of Cash and cash equivalents are in respect of these statements of financial position amounts:

Year ended 31 December 2012

	31 Dec 2012 £	1 Jan 2012 £
Cash and cash equivalents	**8,682,655**	29,924,571

Period ended 31 December 2011

	31 Dec 2011 £	24 Jan 2011 £
Cash and cash equivalents	29,924,571	–

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Glossary

AIM
Alternative Investment Market

bbl
Barrels

bcf
Billion cubic feet

boepd
Barrels of oil equivalent per day

bopd
Barrels of oil per day

Capex
Capital expenditure

cp
Centipoises

D
Darcy

DECC
Department of Energy and Climate Change

DHI
Direct hydrocarbon indicator

DST
Drill stem test

E&P
Exploration and Production

Farm in
Acquiring an interest in a license by taking over all or part of the financial commitment for drilling a well

Farm out
Assigning an interest in a licence to another party

FDP
Field development plan

FEED
Front end engineering and design

FPSO
Floating, production, storage and offtake

HSE
Health and Safety Executive

HT/HP
High temperature and high pressure

IPO
Initial public offering

m
Millions

M&A
Mergers and acquisitions

MD
Measured depth

mmbbls
Millions of barrels of oil

mmcfgd
Millions of cubic feet of gas per day

MWD
Measurement while drilling

Opex
Operating expenditure

OWC
Oil-water contact

PRT
Petroleum revenue tax

Trapoil
Trap Oil Group plc

TVDss
Total vertical depth subsea

UKCS
United Kingdom Continental Shelf

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