Registered in England and Wales number 06573154

Frontier Resources International Plc

Group Annual Report and Financial Statements
Year Ended 31 December 2012

Frontier Resources International Plc

Annual Report and Financial Statements for the Year Ended 31 December 2012

Contents

Pages

Officers and Advisors

Directors:	Richard J Piper (Non-Executive Chairman) Michael J Keyes (Chief Executive Officer) John O'Donovan (Non-Executive Director) Andrew Grosse (Non-Executive Director) Barbara Spurrier (Executive Director)
Company secretary and registered office:	Barbara Spurrier c/o/ Cambridge Financial Partners LLP 11 Staple Court Staple Inn Buildings London WC1V 7QH
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Auditors:	UHY Hacker Young LLP Quadrant House 4 Thomas More Street London E1W 1YW
Solicitors:	Marriott Harrison LLP 11 Staple Inn Court London WC1V 7QH
Registrars:	Neville Registrars Neville House 18 Laurel Lane Halesowen B63 3DA
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Company Number:	06573154

The directors of Frontier Resources International Plc ("Frontier") are pleased to present their report together with the audited financial statements for the year ended 31 December 2012.

Principal activity
The principal activity of the Group is that of oil and gas exploration**.**

Highlights and business review
Frontier is an exploration and production company with exploration acreage in Oman, Namibia and Zambia. The Company is focused on Southern Africa and the Middle East where it has technical knowledge and expertise.

The Group's loss for the year after taxation was $901,000 (2011: $834,000).

Oman
On 10 October 2012, Frontier Resources Oman, a wholly-owned subsidiary of Frontier, signed an Exploration and Production Sharing Agreement (the "Oman EPSA") with the Government of the Sultanate of Oman for an initial 100 per cent. interest in Block 38, the Mudayy Block. From the declaration of commerciality, which under the Oman EPSA means the date on which the Oman Government approves a field development plan for the commercial discovery of crude oil or natural gas and as appropriate a gas sales agreement becomes effective, an Oman Government company will be entitled to a 25 per cent participating interest in the Oman EPSA. The Oman EPSA is a six year agreement comprising two three year phases. Block 38 covers an area of 17,425 square kilometres and is located in the Dhofar region of southwest Oman in the southern part of the Rub Al Khali Basin. To the west lies the Republic of Yemen and to the east is the prolific South Oman Salt Basin. Block 38 has had only three wells drilled and is considered prospective for oil and gas given the production from the nearby Block 6 operated by Petroleum Development Oman.

Based on the evaluation of vintage seismic, well data and regional geologic studies, the Directors of Frontier believe that Block 38 contains an untested salt basin with exploration potentially analogous to the other proven salt basins of Oman. Primary targets are the carbonate stringers embedded in Ara Group salts lying at depths of between 3,000 and 5,000 metres. Secondary targets include the shallower Haima Play which had minor oil shows during drilling and the deeper Buah Formation which has proven to be gas productive elsewhere in Oman.

Frontier plans to conduct geophysical and geological studies during the first phase of the Oman EPSA to determine the range of drilling opportunities that may be available. This information will then be used to design a 3D seismic survey, the results of which will lead to the drilling of a well if a suitable structure is identified. The Company has started the reprocessing of older seismic data and is progressing to acquisition of aerogravity and magnetic surveys in preparation for the 3D seismic survey.

The Block 38 licence area could contain prospective resources. The Oman CPR prepared by SLR contains an estimate of the oil-initially-in-place within the Ghudun Basin of 15.5 billion barrels of oil equivalent. Because of drainage towards the Ghudun-Khasfah High, SLR state that Block 38 can be expected to contain 70 per cent of this volume i.e. 10.8 billion barrels of oil equivalent in place. Adjusting for an 18 per cent recovery factor, SLR estimates that Block 38 could hold 1.9 billion barrels of prospective resources (source: Oman CPR). The estimate of net attributable prospective resources is based on Frontier's initial 100 per cent interest in the Oman EPSA (prior to a declaration of commerciality).

Namibia
On 17 October 2011, Frontier signed a petroleum agreement with the Government of the Republic of Namibia for two blocks, 1717 and 1817, covering approximately 18,000 square kilometres. The initial two year licence was granted on 20 January 2012. These blocks are located in the Owambo Basin in northern Namibia. Frontier has mapped two leads in Block 1817 using the available seismic, gravity and geological data. These leads are of substantial areal extent and thickness and if matured to the prospect level by

the acquisition of further seismic date Moyes & Co believes they could contain significant levels of hydrocarbons. During the initial two year exploration programme Frontier will gather and evaluate available geological, geophysical, geochemical, well and potential field data. This evaluation will be followed by geochemical survey and then subsequently the acquisition of new 2D seismic data.

Zambia
In March 2011, Frontier, together with its local partner, Metprosol, was awarded the Zambian Licence, PEL 004, covering Block 34, by the Zambian Ministry of Mines and Minerals Development. This Block covers an area of approximately 5,888 square kilometres and is located in the Kafue Trough which is located approximately 150 kilometres southwest of the capital, Lusaka. Frontier has gathered available data from the area, including three older seismic lines acquired by Placid Oil in 1986. Core analysis from a shallow core hole drilled on the block by the Zambian Geological Survey has identified an organic rich source rock that has generated hydrocarbons in the past. The Company is now engaged in further evaluation of this block.

North America
During 2012, the Company disposed of its US onshore production interests in October and is now solely focused on on-shore oil and gas exploration and development in the Middle East and Southern Africa where the Company has extensive technical knowledge and contacts.

Stock market listing
Frontier's shares were first admitted to trading on ISDX (formerly PLUS-SX) in January 2009, a market for smaller companies' shares. The Board of Frontier's intention has always been to move to AIM at the appropriate time and the Directors believe that the Company has now made sufficient progress, including the award of the Oman EPSA and the disposal of its US production assets, that the move to AIM is now a logical next step for the Company.

The Directors believe that an admission to AIM would enable the Company to take advantage of AIM's higher profile, broader investor base, liquidity and access to institutional investors. The Company aims to raise approximately $3 million in a placing in connection with the admission, which is expected to take place in June 2013. The funds raised in the placing will be used to conduct exploration on the Company's exploration assets in Oman and Southern Africa and provide working capital.

Results and dividends
The results for the year are set out on page 11.

The directors do not recommend payment of any dividend (2011: nil).

Future outlook
The Group has commenced its work programme in Oman and continues with its work programmes in Zambia and Namibia. Subsequent events since the year end are discussed below.

Risks and uncertainties
Principle risks and uncertainties are described below:

Going concern
Having made appropriate enquiries and examining those areas which could give rise to financial exposure, the directors are satisfied the Company has sufficient financial resources to meet its future commitments and to pay its liabilities for at least 12 months from the approval of the financial statements. As a consequence, the directors believe that the Group will be able to manage its business risks successfully.

The directors therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further discussion on going concern in included in note 3 of the financial statements.

Reserve estimates
There are numerous uncertainties inherent in estimating reserves and assumptions that, whilst valid at the time of estimation, may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping calculations and provisions for close down, restoration and environmental clean up costs. The Group utilises the expertise of third party consultants to report on its reserves estimates to increase the reliability of its estimations.

Exploration and new projects
The Group may seek to identify new operations through active exploration and acquisition programmes. There is no guarantee, however, that such expenditure will be recouped or that existing oil/condensate and gas reserves will be replaced. Failure to do so could have a material and adverse impact on the Group's financial results and prospects.

Exploration risks
Exploration for oil and gas is speculative and involves significant degrees of risks. Risks that prospect areas will be acquired, that they will lead to the discovery of oil or gas and financial and other resources will be secured to exploit the opportunities are uncertain.

Political and charitable contributions
The Group made no charitable or political contributions during the year (2011: nil).

Financial instruments
Details of the use of financial instruments by the Group are in note 22 to the financial statements.

Subsequent events
On 7 January 2013, Frontier Resources International Plc raised GBP140,000 (before expenses) through the issue of 1,750,000 new Ordinary Shares at 8p per Ordinary Share and on 29 January 2013 raised a further GBP122,104 (before expenses) through the issue of a further 1,526,300 new Ordinary Shares at 8p per Ordinary Share: In aggregate, the Company raised GBP262,104. On 7 January 2013 Robert Gavin Bonnar was appointed as Non-executive director and Barbara Spurrier was appointed as Group Finance Director on 6 March 2013.

Key performance indicators
At this stage in the Group's development, the key performance indicators that the directors monitor on a regular basis are management of liquid resources (cash flows and bank balances) and also general administrative expenses, which are tightly controlled. Specific exploration related key performance indicators include: the probability of geological success, the probability of commerciality or completion and the probability of economic success.

Capital structure
Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 19. The Company has one class of ordinary share which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

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

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

Information to shareholders – website
The Company maintains a website (www.friplc.com) to facilitate the provision of information to both current and potential investors.

Directors
The directors of the Company during the year were:
Richard J Piper (Appointed 1 December 2012)
Michael J Keyes
Joseph E Warren (Deceased 16 June 2012)
John O'Donovan
Graeme Thomson (Resigned 1 December 2012)
Andrew Grosse (Appointed 1 September 2012)

On 7 January 2013, Robert Gavin Bonnar was appointed as a director of the company. On 6 March 2013, Barbara Spurrier was appointed as a director.

Directors' interests

The directors who held office at 31 December 2012 and 31 December 2011 had the following interests in the ordinary shares of the Company:

	31 December 2012		31 December 2011	
	Ordinary shares of £0.01	Share options of £0.01	Ordinary shares of £0.01	Share options of £0.01
Michael J Keyes	23,593,671 31.3%	750,000	22,927,004 33.0%	750,000
Joseph Warren	1,106,894 1.5%	750,000	1,106,894 1.6%	750,000
Graeme Thomson	323,334 0.4%	250,000	200,000 0.3%	750,000
John O'Donovan	1,500,000 2.0%	3,000,000	1,500,000 2.1%	3,000,000
Andrew Grosse	5,049,166 6.7%	750,000	-	-

Directors' remuneration

Directors' remuneration during the year was $194,000 (2011: $105,000), which includes salary of $150,000 and fees to non-executive directors of $44,000. The share-based payments to the directors in 2012 were $62,000 (2011: $107,000).

	Salary & fees $'000	**Share-based payments $'000**	**Year ended 31 December 2012 $'000**	**Year ended 31 December 2011 $'000**
Michael J Keyes	150	11	**161**	82
Joseph Warren	6	-	**6**	34
John O'Donovan	16	42	**58**	83
Graeme Thomson	15	9	**24**	13
A Gross	5	-	**5**	-
R Piper	2	-	**2**	-
Total	**194**	**62**	**256**	**212**

Directors' indemnities

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

Share option scheme

In order to provide incentive for the management and key employees of the Group the directors have set up a share option scheme. Details of the scheme are set out in note 8.

Policy and practice on the payment of creditors

The Group follows its code on payment practice, known as "Bill Code". This code is available at our registered office. It sets out the Group's policy of settling terms of payment with its suppliers when agreeing the terms of transactions and of ensuring suppliers are made aware of them. The Group has a successful record of abiding by the terms of "Bill Code" and this is expected to continue. The average trade payables' payment period at 31 December 2012 was 71 days (2011: 77 days).

On behalf of the Board

Michael J Keyes
Chief Executive Officer
4th June 2013

Corporate Governance

It is the Board's policy to support the principle of good corporate governance and the code of best practice as set out in the Financial Reporting Council's Combined Code ('the code') which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The Company is not required to comply with the Code; however it is recommended best practice to do so. The Board considers that it has adopted the principles outlined in the Code for corporate governance insofar as it is practical and appropriate for the Company's size.

The Group is controlled by a Board consisting of two executive director and two non executive directors. There is a clear division of responsibilities between the chairman and the chief executive officer and the Board considers the non executive director who is chairman to be independent of management.

The Board is responsible for the Group's corporate strategy, monitoring financial performance, approving capital expenditure, treasury and risk management policies. The Board meets regularly with Board meetings occurring as required (some meetings were conducted by conference call). During the year ended 31 December 2012 the Board met eight times. A schedule is circulated to the directors preceding a Board meeting that consists of an agenda, matters for approval and management accounts. Formal minutes of Board meetings are produced and circulated for comment and formally approved.

Due to the size of the Company and Board, during 2012 the directors did not consider it necessary to have a remuneration committee, an audit committee or a nomination committee as suggested by the Code. The whole Board considers such matters that these committees would undertake were they to exist. The directors evaluate the balance of skills, knowledge and experience on the Board when defining the role and capabilities required for new appointments.

The Code requires the Board to review the need for an internal audit function from time to time. The Company does not consider that an internal audit function is appropriate given the current size of the business and structure of its operations.

The Board is responsible for the Group's system of internal control and reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives, and can only provide reasonable and not absolute insurance against material misstatement or loss. The system of internal financial control comprises of controls established to provide reasonable assurance of:

i) The safeguarding of assets against unauthorised use or disposal and;
ii) The reliability of financial information used within the business and for publication and the maintenance of proper accounting records.

In addition the key procedures on the internal financial control of the Group are as follows:

i) The Board reviews and approves budgets and monitors performance against those budgets on a monthly basis with any variance being fully investigated and;
ii) The Group has clearly defined reporting and authorisation procedures relating to the key financial areas.

The Annual General Meeting is the principal forum for dialogue with shareholders; the Company also has a dedicated electronic communication line specifically for shareholders' enquiries.

Statement of Directors' Responsibilities

The directors are responsible for preparing the financial statements in accordance with the Companies Act 2006 and for being satisfied that the financial statements give a true and fair view. The directors are also responsible for preparing the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that show and explain the Company's transactions disclose with reasonable accuracy at any time the financial position of the Company and the Group, and to enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication
The directors are responsible for ensuring the annual report and financial statements are made available on a website. Financial statements are published on the Group's website (www.friplc.com) in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Statement of disclosure to the auditors
All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

UHY Hacker Young have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board

Michael J Keyes
Chief Executive Officer
4th June 2013

Independent auditor's report to the members of Frontier Resources International Plc

We have audited the Group and Parent Company financial statements of Frontier Resources International plc for the year ended 31 December 2012 (the "financial statements"), which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows, together with 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 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

As explained more fully under 'Statement of Directors' Responsibilities' on page 8 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the Group's affairs.

Our responsibility is to audit the financial statements in accordance with relevant law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB) Ethical Standards for auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the Parent Company financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Colin Wright (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young LLP
Chartered Accountants
Statutory Auditor

Quadrant House
4 Thomas More Square
London E1W 1YW

4th June 2013

Frontier Resources International Plc

Consolidated statement of comprehensive income for the year ended 31 December 2012

	Notes	**Year ended 31 December 2012 $'000**	Year ended 31 December 2011 $'000
Revenue		**-**	-
Cost of sales			
Impairment of oil and gas assets		**-**	-
Depletion of oil and gas assets		**-**	-
Other cost of sales		**-**	-
Total cost of sales		**-**	-
Gross loss			
Administrative expenses		**(786)**	(561)
Share-based payments	8	**(73)**	(137)
Operating loss	5	**(859)**	(698)
Finance costs	9	**(1)**	(2)
Loss before tax		**(860)**	(700)
Taxation credit	10	**-**	-
Loss for the year from continuing operations		**(860)**	(700)
Loss for the year from discontinued operations	16	**(41)**	(134)
Loss for the year		**(901)**	(834)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**26**	52
Total comprehensive loss for the year		**(875)**	(782)
Loss per share (cents)			
Basic and diluted – continuing operations		**(1.18c)**	(1.06c)
Basic and diluted – discontinued operations		**(0.06c)**	(0.20c)
Basic and diluted – total	11	**(1.24c)**	(1.26c)

The loss for the current and prior years and the total comprehensive loss for the current and prior years are wholly attributable to equity holders of the Parent Company, Frontier Resources International plc.

Consolidated statement of financial position as at 31 December 2012

	Notes	31 December 2012 $'000	31 December 2011 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	**1**	2
Exploration and evaluation assets	13	**1,135**	258
Assets held for sale	16	**-**	475
		1,136	735
Current assets			
Trade and other receivables	14	**26**	52
Restricted cash		**750**	-
Cash and cash equivalents		**16**	331
		792	383
TOTAL ASSETS		**1,928**	1,118
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent			
Share capital	19	**1, 205**	1,115
Share premium	19	**2,447**	1,833
Share-based payment reserve		**271**	198
Foreign exchange reserve		**7**	(19)
Retained losses		**(3,265)**	(2,364)
TOTAL EQUITY		**665**	763
Non-current liabilities			
Liabilities held for sale	16	**-**	119
Total non-current liabilities		**-**	119
Current liabilities			
Trade and other payables	15	**1,263**	236
		1,263	236
TOTAL EQUITY AND LIABILITIES		**1,928**	1,118

These financial statements were approved and authorised for issue by the board of directors on 4th June 2013 and were signed on its behalf by:

Michael J Keyes
Director
Company Registration Number: 06573154

Company statement of financial position as at 31 December 2012

	Notes	31 December 2012 $'000	31 December 2011 $'000
ASSETS			
Non-current assets			
Investments in subsidiaries	12	**2,222**	1,345
Current assets			
Trade and other receivables	14	**24**	21
Cash and cash equivalents		**23**	283
		47	304
TOTAL ASSETS		**2,269**	1,649
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent			
Share capital	19	**1,205**	1,115
Share premium	19	**2,447**	1,833
Share-based payment reserve		**271**	198
Retained losses		**(2,845)**	(1,644)
		1,078	1,502
Current liabilities			
Trade and other payables	15	**1,191**	147
TOTAL EQUITY AND LIABILITIES		**2,269**	1,649

These financial statements were approved and authorised for issue by the board of directors on 4th June 2013 and were signed on its behalf by:

Michael J Keyes
Director

Company Registration Number: 06573154

Consolidated statement of changes in equity for the year ended 31 December 2012

	Share Capital $'000	Share Premium $'000	Retained Losses $'000	Share-based Payment Reserve $'000	Foreign Exchange Reserve $'000	Total Equity $'000
As at 1 January 2011	**984**	**1,156**	**(1,530)**	**61**	**(71)**	**600**
Loss for the year from continuing operations	-	-	(700)	-	-	(700)
Loss for the year from discontinued operations	-	-	(134)	-	-	(134)
Other comprehensive loss	-	-	-	-	52	52
Issue of share capital	131	677	-	-	-	808
Issue of share options	-	-	-	137	-	137
As at 31 December 2011	**1,115**	**1,833**	**(2,364)**	**198**	**(19)**	**763**
As at 1 January 2012	**1,115**	**1,833**	**(2,364)**	**198**	**(19)**	**763**
Loss for the year from continuing operations	-	-	(860)	-	-	(860)
Loss for the year from discontinued operations	-	-	(41)	-	-	(41)
Other comprehensive income	-	-	-	-	26	26
Issue of share capital	90	614	-	-	-	704
Issue of share options	-	-	-	73	-	73
As at 31 December 2012	**1,205**	**2,447**	**(3,265)**	**271**	**7**	**665**

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

Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Retained losses	Cumulative net losses recognised in the financial statements
Share-based payment reserve	Amounts recognised for the fair value of share options granted
Foreign exchange reserve	Exchange differences on translating foreign operations

Company statement of changes in equity for the year ended 31 December 2012

	Share Capital $'000	Share Premium $'000	Retained Losses $'000	Share-based Payment Reserve $'000	Total $'000
As at 1 January 2011	**984**	**1,156**	**(658)**	**61**	**1,543**
Loss for the year	-	-	(986)	-	(986)
Issue of share capital	131	677	-	-	808
Share based payments in period	-	-	-	137	137
As at 31 December 2011	**1,115**	**1,833**	**(1,644)**	**198**	**1,502**
As at 1 January 2012	**1,115**	**1,833**	**(1,644)**	**198**	**1,502**
Loss for the year	-	-	(1,201)	-	(1,201)
Issue of share capital	90	614	-	-	704
Share based payment in period	-	-	-	73	73
As at 31 December 2012	**1,205**	**2,447**	**(2,845)**	**271**	**1,078**

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

Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Retained losses	Cumulative net losses recognised in the financial statements
Share-based payment reserve	Amounts recognised for the fair value of share options granted

Consolidated statement of cash flows for the year ended 31 December 2012

	Notes	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Net cash used in continuing operations	20	**(1,238)**	(529)
Net cash used in discontinued operations	16	**(38)**	2
Net cash used in operations		**(1,276)**	(527)
Cash flows from investing activities			
Purchase of plant and equipment	13	**-**	(10)
Expenditures for exploration and evaluation	13	**(127)**	(258)
Distribution from associate	13	**27**	76
Cash flow from sale of discontinued assets		**360**	-
Net cash from/(used in) investing activities		**260**	(192)
Cash flows from financing activities			
Proceeds from issue of share capital	19	**704**	808
Interest paid	9	**(1)**	(1)
Net cash from financing activities		**703**	807
Net (decrease)/increase in cash and cash equivalents		**(313)**	88
Cash and cash equivalents beginning of year		**331**	190
Effect of foreign exchange rate changes		**(2)**	53
Cash and cash equivalents at end of year		**16**	331

Company statement of cash flows for the year ended 31 December 2012

	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Net cash from/(used in) operating activities	**514**	(198)
Cash flows from investing activities		
Funds paid to subsidiary	**(1,478)**	(439)
Net cash used in investing activities	**(1,478)**	(439)
Cash flows from financing activities		
Proceeds from issue of share capital	**704**	808
Net cash from financing activities	**704**	808
Net (decrease)/increase in cash and cash equivalents	**(260)**	171
Cash and cash equivalents beginning of year	**283**	112
Cash and cash equivalents at end of year	**23**	283

1 General information

Frontier Resources International Plc is incorporated in the United Kingdom. The address of the registered office is given in the officers and advisors section. The nature of the Company's operations and its principal activities are set out in the Directors' report.

The functional currency of the Company is Sterling (£). The presentational currency of the Company is the US Dollar ($) because that is the currency of the primary economic environment in which the Group operates (being the oil and gas industry).

2 Adoption of new and revised International Financial Reporting Standards

No new IFRS standards, amendments or interpretations became effective for the accounting period beginning 1 January 2012 that had a material effect on these financial statements.

At the date of approval of these financial statements, the following IFRS Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and not yet adopted by the European Union). These new Standards, Amendments and Interpretations are effective for accounting periods beginning on or after the dates shown below:

Standard	Description	Effective date
IFRS 10	Consolidated Financial Statements – a single consolidation model that identifies control as the basis for consolidation and applies to all types of entities	1 Jan 2013
IFRS 11	Joint Arrangements – defines the accounting for joint ventures and joint operations	1 July 2013
IFRS 12	Disclosure of Interests in Other Entities – combines disclosure requirements for interests in subsidiaries, associates and joint arrangements	1 July 2013
IFRS 13	Fair Value Measurement – defines how fair value should be measured and disclosed where required by other IFRS	1 Jan 2013
IFRS 9	Financial Instruments – deals with classification and measurement of financial assets	1 Jan 2015
IAS19 (amended)	Employee Benefits – revisions to recognition, measurement, disclosure	1 Jan 2013
IAS 1	Presentation of Financial Statements – separation of items that could be reclassified to profit and loss at a future date from those that are not	1 July 2012
IFRS7/IAS 32 (amended)	Offsetting Financial Assets and Financial Liabilities – new disclosure requirements	1 Jan 2013/ 1 Jan 2014
IAS 27	Separate Financial Statements	1 Jan 2013

The Group has not early adopted these amended standards and interpretations. The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the periods of initial application.

3 Significant accounting policies

Basis of preparation

These financial statements of the Group and Company are prepared on a going concern basis, under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union, including IFRS 6 'Exploration for and Evaluation of Mineral Resources' and in accordance with the Companies Act 2006. The Parent Company's financial statements have also been prepared in accordance with IFRS and the Companies Act 2006.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year and have been prepared using the principles of acquisition accounting ("the purchase method"). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

The cost of acquisitions of subsidiaries is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Parent Company income statement

The Company has taken advantage of Section 408 of the Companies Act 2006 in not presenting its own income statement. The Company's loss for the year was $1,201,000 (2011: $986,000) and is included within the consolidated statement of comprehensive income.

Going concern

During the year ended 31 December 2012 the Group made a loss of $901,000 (*2011: $834,000*). At the year end the Group had net assets of $665,000 (*2011: $*763*,000*) and cash balances of $16,000 (2011: $331,000). To ensure that the Group has sufficient funds to cover the costs of the planned work programme over the next few years the directors are in the process of raising approximately $3,000,000 by way of a placing of new shares.

The operations of the Group are currently being financed from funds which the Company raised from private and public placing of its shares. The Group is not yet earning sufficient revenue to cover its costs. The Group is therefore still reliant on the continuing support from its existing and future shareholders.

The directors believe that the Group will have sufficient cash and other resources to fund its activities and to continue its operations for the foreseeable future and for the Group to continue to meet its liabilities as they fall due, and for at least the next twelve months from the date of approval of these financial statements. The financial statements have, therefore, been prepared on the going concern basis.

Assets and liabilities held for sale

The Company sold its oil and gas properties and its investment in Bison Investments II Limited and as such, the assets and liabilities have been reclassified in the results for the year ended 31 December 2011 as asset and liabilities held for sale. Non-current assets are classified separately as held for sale in the statement of financial position when their carrying amount will be recovered through a sale rather than continuing use. This condition is only met when the sale is highly probable, assets are available for immediate sale in current condition, and the management is committed to the sale which should be completed within one year of the classification. Liabilities directly associated with the assets classified as held for sale and expected to be included as part of the sale transactions are correspondingly also classified separately. The net assets and liabilities of a disposal group classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

Investments in subsidiaries

The Company’s investment in its subsidiaries is carried at cost less provision for any impairments.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the consolidated statement of financial position at cost as adjusted by post-acquisition changes in the Group’s share of the net assets of the associate, less any impairment in the value of the investment. Losses of an associate in excess of the Group’s investment in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group’s associate forms part of the discontinued operations.

Taxation

Income tax expense represents the sum of the current tax and deferred tax charge for the year. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group’s and Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end.

Deferred income taxes are provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined using tax rates that have been enacted or substantially enacted and are expected to apply when the related deferred income tax asset is realised or the related deferred income tax liability is settled.

The principal temporary differences arise from depreciation or amortisation charged on assets and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Foreign currencies

Functional and presentational currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency") which is considered by the directors to be the Pounds Sterling (£). The financial statements have been presented in US Dollars. The effective exchange rate at 31 December 2012 was £1 =US$1.62 (2011: £1 = US$1.55).

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Transactions in the accounts of individual Group companies are recorded at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the year end. All differences are taken to the statement of comprehensive income.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement, which involves assessing whether the fulfilment of the arrangement depends on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

The classification of leases as financing or operating leases requires the Company to determine, based on an evaluation of the terms and conditions, whether it retains or acquires the significant risks and rewards or ownership of these assets and accordingly whether the lease requires an asset and liability to be recognized on the balance sheet.

The Company leases assets, all which have been determined to be operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Financing charges are reflected in the income statement.

Rent paid on operating leases is charged to the statement of comprehensive income on a straight line basis over the term of the lease.

Borrowing costs
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Revenue recognition
The Company recognizes revenue for petroleum and natural gas assets at the fair value of the consideration received or receivable when the significant risks and rewards of ownership are transferred to the buyer and it can be reliably measured and only at such time as a project becomes commercially viable and development approval is received. Prior to this stage, any production is considered test production and related revenue is capitalized net of applicable costs.

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

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Cash and cash equivalents
Cash and cash equivalents comprise balances on bank accounts, cash in transit and cash floats held in the business. Interest bearing bank loans are recorded at the proceeds received, net of issue costs. Finance charges are accounted for on an accruals basis and charged to the statement of comprehensive income when payable.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each year end. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected that can be reliably estimated.

Payables, financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Equity instruments
An equity instrument is any instrument with a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments (ordinary shares) are recorded at the proceeds received, net of direct issue costs.

Payables
Payables are recognised at fair values and classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Financial liabilities
Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

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

Property, plant and equipment
Equipment and proven oil and gas assets are stated at cost less accumulated depreciation and accumulated impairment. Equipment is depreciated on a straight line basis over its expected useful life. The expected useful lives of equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

Proven oil and gas assets are accounted for using the successful efforts method. For evaluated properties with economic values exceeding the exploration and development costs incurred after the grant of the licence, these costs, which may include geological and geophysical costs, costs of drilling exploration and development wells, costs of field production facilities, including commissioning and infrastructure costs, are capitalised. These expenditures are combined into asset groups reflecting the anticipated useful lives of individual assets and subsequently are depreciated over the expected economic lives of those asset groups. The expenditure within the asset group with a useful life equal to the producing life of the field is depleted on a unit-of-production basis.

Impairment reviews of property, plant and equipment
The carrying amounts of the Group's and Company's assets are reviewed at each year end and, if there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use for example, the discounted future cash flows from the estimated recoverable oil and gas reserves for proven oil and gas assets. Any impairment loss arising from the review is charged to the statement of comprehensive income under costs of sale whenever the carrying amount of the asset exceeds its recoverable amount.

A previously recognised impaired loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income and the depreciation charge adjusted prospectively.

Decommissioning costs
Where a material liability for the removal of production facilities and site restoration at the end of the field life exists, a provision for decommissioning is made. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. An asset of an amount equivalent to the provision is also created and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated asset.

Exploration and evaluation assets
Costs associated with exploration and evaluation are capitalised on a project-by-project basis, where a project may be a collection of geographically and geologically similar licenses. Costs capitalised include appropriate technical and directly attributable administrative expenses but not general overheads. Costs capitalised are reviewed at each reporting date to confirm that there is no indication of impairment and that drilling is still underway or is planned. If no future exploration or development activity is planned in the licence area the exploration and evaluation assets are impaired.

Impairment reviews of exploration and evaluation assets
The capitalised expenditures for each project are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review included confirming that exploration drilling is still underway or firmly planned or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned, the remaining balance of capitalised expenditures for the project is written off as impairment in the consolidated statement of comprehensive income. When production commences the accumulated costs for the project are transferred from intangible exploration and evaluation assets to Proven oil and gas assets in property, plant & equipment.

Share based payments
The Company made share-based payments to certain directors and advisers by way of issue of share options. The fair value of these payments is calculated either using the Black Scholes option pricing model or by reference to the fair value of any fees or remuneration settled by way of granting of options. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest.

Restricted Cash
Restricted cash includes cash set aside for a specific use or future event and is not available for general operating purposes and does not form part of cash and cash equivalents.

Ordinary shares
Ordinary shares are classified as equity. Costs directly attributable to the increase of new shares or options are shown in equity as a deduction from the proceeds.

Share based payments
The Company made share-based payments to certain directors and advisers by way of issue of share options. The fair value of these payments is calculated either using the Black Scholes option pricing model or by reference to the fair value of any fees or remuneration settled by way of granting of options. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest.

Critical accounting estimates and judgments
The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Decommissioning provision for discontinued operations
The decommissioning provision represents the present value of decommissioning costs for existing assets in the Group's oil and gas operations. These provisions have been generated based on the Group's and Company's internal estimates and, where available, external data. Assumptions based on the current economic environment have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed periodically to take into account any material changes to those assumptions. However actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning work required at the time the assets are decommissioned and abandoned. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates which in turn is dependent on future oil and gas prices which are inherently uncertain.

Reserves for discontinued operations
Proved and probable reserve estimates are based on a number of underlying assumptions including oil prices, future costs, oil in place and reservoir performance, which are inherently uncertain. Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants. However, the amount of oil and gas that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

Carrying value of property, plant and equipment (including oil and gas assets)
Depletion and depreciation for oil assets is calculated on a unit-of-production basis, using the ratio of oil production in the period to the estimated quantities of proved and probable reserves at the end of the period plus production in the period. Oil and gas assets are tested periodically for impairment to determine whether the net book value of capitalised costs relating to the cash generating unit exceed the associated estimated future discounted cash flows of the related commercial oil and gas reserves. If an impairment is identified, the depletion is charged through the statement of comprehensive income in the period incurred.

Impairment of investment in subsidiaries
Reviews are made periodically by management on investments in subsidiaries for impairments. These reviews require the use of judgements and estimates of whether there are any indications that the carrying values are not recoverable.

4 Operating segments

In the opinion of the directors, the operations of the Group comprise one operating segment, being oil and gas exploration. The Group has exploration and evaluation licenses in Oman, Namibia and Zambia. These financial statements reflect all the activities of this single operating segment. Segments are determined by reference to the Group's internal organisation and reporting to the directors which bases its structure on products and geographical areas.

Group non-current assets are distributed as follows:

	31 December 2012	31 December 2011
	$'000	$'000
USA	**1**	477
Rest of world	**1,135**	258
Total	**1,136**	735

5 Operating loss

The Group's operating loss has been arrived at after charging:

	Year ended 31 December 2012	Year ended 31 December 2011
	$'000	$'000
Operating lease rentals	**194**	50
Audit fees	**25**	23
Fees payable to company's auditor for other services:		
- Corporate finance services	**41**	-

6 Employees

The average number of employees (including directors) in the Group and their remuneration was as follows:

		Year ended 31 December 2012	Year ended 31 December 2011
Number of employees	No	**4**	4
Wages, salaries and fees	$'000	**202**	105

Directors' remuneration comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
	$'000	$'000
Executive director salary for Michael J Keyes	**150**	65
Non-executive directors' fees	**44**	40
Directors' share–based payments	**62**	107
Total	**256**	212

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. These are considered to be the directors of the Company and so key management remuneration is as disclosed above.

The Group does not operate a pension plan for directors or employees.

7 Directors' share options

None of the share option grants have ever been exercised. Details of outstanding share options for 2012 and 2011 are as follows:

	As at 1 January 2012	**Granted/ Lapsed in 2012**	**Exercised**	**As at 31 December 2012**	**Exercise Price (pence)**	**Date of Grant**	**Earliest Exercise Date**	**Expiry Date**
M J Keyes	250,000	-	-	250,000	5.5	14/10/10	14/10/11	14/10/20
M J Keyes	250,000	-	-	250,000	5.5	14/10/10	14/10/12	14/10/20
M J Keyes	250,000	-	-	250,000	5.5	14/10/10	14/10/13	14/10/20
J O'Donovan	1,000,000	-	-	1,000,000	5.5	14/10/10	14/10/11	14/10/20
J O'Donovan	1,000,000	-	-	1,000,000	5.5	14/10/10	14/10/12	14/10/20
J O'Donovan	1,000,000	-	-	1,000,000	5.5	14/10/10	14/10/13	14/10/20
J Warren	750,000	-	-	750,000	5.5	14/10/10	14/10/11	14/10/20
G Thomson	250,000	-	-	250,000	6.5	07/10/11	07/10/12	07/10/21
G Thomson	250,000	(250,000)	-	-	6.5	07/10/11	07/10/13	07/10/21
G Thomson	250,000	(250,000)	-	-	6.5	07/10/11	07/10/14	07/10/21
A Grosse	-	250,000	-	250,000	7.5	07/07/12	07/07/13	07/07/22
A Grosse	-	250,000	-	250,000	7.5	07/07/12	07/07/14	07/07/22
A Grosse	-	250,000	-	250,000	7.5	07/07/12	07/07/15	07/07/22

8 Share options and share-based payments

The Company grants share options at its discretion to directors, management and advisors. In 2012, 2011 and 2010 share options were granted with vesting periods of between one and three years from the date of grant. Should the options remain unexercised after a period of ten years from the date of grant the options will expire. Options are exercisable at a price equal to the Company's quoted market price on the date of grant.

Details for the share options granted, exercised, lapsed and outstanding at the year end are as follows:

	As at 31 December 2012		As at 31 December2011	
	Number of share options	**Weighted average exercise price (pence)**	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of year	**7, 500,000**	**5.6**	7,250,000	5.5
Granted during the year	**750,000**	**7.5**	750,000	6.5
Forfeited/lapsed during the year	**(500,000)**	**6.5**	(500,000)	5.5
Exercised during the year	**-**	**-**	-	-
Outstanding at end of the year	**7,750,000**	**5.7**	7,500,000	5.6
Exercisable at end of the year	**5,550,000**	**5.3**	3,750,000	5.5

Fair value of share options

Options were priced using an option pricing model including the quoted market value of the share price and assumptions for share price volatility and dividends. Both remained constant from the date of listing in January 2009 to 31 December 2010. Expected volatility for the 2011 and 2012 grant has been based on the Frontier Resources International plc share price over the 12 month period. It is assumed that all options will be exercised.

		Year ended 31 December 2012	Year ended 31 December 2011
		$'000	$'000
Grant date share price (pence)	Pence	**7.5**	7.3
Exercise price (pence)	Pence	**7.5**	6.5
Expected volatility		**44%**	23%
Option life		**10 years**	10 years
Charge for share based payments	$'000	**73**	137
Weighted average fair value of share options grant	Pence	**9.1**	10
Quoted share price at time of grant	Pence	**5.3**	7.3
	Cents	**8.4**	11.2
Quoted share price - high	Pence	**9.25**	5.5
Quoted share price - low	Pence	**5.125**	8.5

9 Finance costs

	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Unwinding of discount of provision for decommissioning	**1**	2
	1	2

10 Taxation

	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Corporation tax		
Current corporation tax	**-**	-
Deferred tax		
Deferred tax credit – discontinued operations (note 16 & 18)	**-**	16
Corporation tax is calculated at following rates	**24%**	26%

Corporation tax is calculated at above stated rates on the estimated taxable profit for the year. The Group's effective tax rate differs from the theoretical amount that would arise using the UK domestic corporation tax rate applicable to losses of the consolidated companies as follows:

	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Loss before tax on ordinary activities	**(901)**	(850)
Corporation tax calculated at rate applicable for year	**(216)**	(221)
Effect of overseas and other taxes at different rates	**10**	(16)
Effect of unused tax losses carried forward	**206**	237
Effect of deferred tax movements	**17**	(16)
Taxation credit recognised in income statement in discontinued operations (note 16)	**-**	(16)
Effective percentage tax rate for year	**0%**	1.88%

The Group has incurred tax losses for the year and therefore a corporation tax charge does not arise.

The potential benefit of these taxation losses calculated at the rates of tax prevailing in the countries in which the losses were incurred has not been recognised as a deferred tax at the year end dates as the recovery of this benefit is dependent on the future profitability of Group entities, the timing of which cannot be reasonably foreseen.

The amount of cumulative tax losses and the potential deferred tax asset are summarised below.

	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Cumulative tax losses	**2,103**	1,316
Unrecognised deferred tax asset related to the losses (note 18)	**504**	342

11 Loss per share

The basic loss per share has been calculated using the loss for the year and the weighted average number of ordinary shares outstanding during the year, as follows:

Basic	**Year ended 31 December 2012**	Year ended 31 December 2011
Loss attributable to shareholders of the Company ($'000)	**(901)**	(834)
Weighted average number of ordinary shares	**72,525,904**	66,022,194
Basic loss per share (cents)	**(1.24c)**	(1.26c)
Weighted average number of ordinary shares allowing for the exercise of options	**78,075,904**	73,063,290

The Company issued share options in 2011 and 2012. The diluted loss per share has been kept the same as the basic loss per share as the conversion of share options decreases the basis loss per share, thus being anti-dilutive.

12 Investments in subsidiary undertakings

The Company operates each of its oil and gas assets through 100% owned subsidiary undertakings that are funded by equity and intercompany funding arrangements with the Company.

The subsidiaries are as follows:

	Equity interest	**Place of business**	**Date & country of incorporation**	
Frontier Resources International Inc.	100%	U.S.A.	24 Feb 1989	U.S.A.
Frontier Resources Oman Ltd	100%	Oman	9 May 2011	U.K.
Frontier Resources Namibia Ltd	100%	Namibia	2 August 2011	U.K.
Frontier Resources Zambia Ltd	100%	Zambia	7 November 2011	U.K.

12 Investments in subsidiary undertakings (continued)

Company	**Year ended 31 December 2012**	Year ended 31 December 2011
At 1 January	**1,302**	1,509
Impairment of investment in subsidiary	**(600)**	(603)
Amounts advanced to subsidiaries	**1,520**	439
At 31 December	**2,222**	1,345

The principal subsidiary undertaking of the company during the current and preceding years was Frontier Resources International Inc., which is incorporated in the United States of America; 100% of ordinary share capital and voting rights is held by the company. The directors have assessed the carrying value of the investment in Frontier Resources International Inc. in the accounts of the company and have impaired it in 2012 by $600,000 (2011: $603,000). The amounts due from the subsidiaries have no fixed repayment terms but are repaying in more than one year.

13 Non-current assets

a) Property, plant and equipment

Group	**Computer Equipment $'000**	**Proven Oil and Gas Assets $'000**	**Total $'000**
Cost			
At 1 January 2011	5	681	686
Change in estimate of provision for decommissioning	-	(2)	(2)
Additions in 2011	1	9	10
At 31 December 2011	6	688	694
Disposal in 2012	-	(688)	(688)
At 31 December 2012	**6**	**-**	**6**
Impairment			
At 1 January 2011	-	(140)	(140)
Impairment loss in 2011	-	-	-
At 31 December 2011	-	(140)	(140)
Impairment loss in 2012	-	(93)	(93)
Disposal	-	233	233
At 31 December 2012	**-**	**-**	**-**
Depreciation and depletion			
At 1 January 2011	(1)	(194)	(195)
Charge for 2011	(3)	(79)	(82)
At 31 December 2011	(4)	(273)	(277)
Charge for 2012	(1)	(37)	(38)
Disposal	-	310	310
At 31 December 2012	**(5)**	**-**	**(5)**
Carrying value			
At 31 December 2011			
- Continuing operations	2	-	2
- Discontinued operations (note 16)	-	275	275
Total	**2**	**275**	**277**
At 31 December 2012			
- Continuing operations	1	-	1
- Discontinued operations (note 16)	-	-	-
Total	**1**	**-**	**1**

The above oil & gas assets includes a deferred tax liability calculated on the fair value uplift and established on the acquisition of the subsidiary (note 16).

The impairment charge relates to provisions against the Group's carrying value of its US producing oil and gas assets.

Assets held for sale have been classified separately on the statement of financial position (note 16).

b) Exploration and evaluation assets

Group	Total $'000
Cost	
At 1 January 2011	-
Additions in 2011	258
At 31 December 2011	258
Additions in 2012	877
At 31 December 2012	**1,135**
Carrying value	
At 31 December 2011	
- Continuing operations	**258**
- Discontinued operations	**-**
Total	**258**
At 31 December 2012	
- Continuing operations	**1,135**
- Discontinued operations	**-**
Total	**1,135**

The directors have assessed the value of those intangible assets, and in their opinion, based on a review of the expiry dates of licences, expected available funds and the intention to continue exploration and evaluation, no impairment is necessary.

The Namibia licence is for an initial two year period from 20 January 2012 for blocks, 1717 and 1817 in the Owambo Basin covering approximately 18,000 square kilometres.

The Zambia licence awarded, jointly with local partner, Metprosol, in March 2011 covers Block 34 in the Kafue Trough 150 kilometres southwest of the capital Lusaka for an area of approximately 5,888 square kilometres.

In October 2012, Frontier signed an Exploration and Production Sharing Agreement (EPSA) with the Government of the Sultanate of Oman for a 100% interest in Block 38, the Munday Block. The EPSA is a six year agreement comprising two three year phases. The Block covers an area of 17,425 square kilometers and is located in the Dhofar region of southwest Oman in the southern part of the Rub Al Khali Basin. The Block has only three wells drilled and is considered prospective for oil and gas given the production from the nearby Block 6 which is operated by Petroleum Development Oman.

The amount of capitalised exploration and evaluation expenditure at 31 December 2012 was $1,135,258 of which $804,902 related to the Group's Oman licence, $256,786 related to the Group's Namibian licence and $73,569 related to the Group's Zambian licence. These amounts have not been impaired because commercial reserves have not yet been established or the determination process has not been completed.

c) Investment in associate

Group	**Year ended 31 December 2012 $'000**	Year ended 31 December 2011 $'000
At 1 January	**200**	352
Additions	**-**	-
Distributions received	**(27)**	(76)
Share of associate's profit/(loss)	**104**	(76)
Disposal in 2012	**(277)**	-
At 31 December	**-**	200

Carrying value		
At 31 December		
- Continuing operations	**-**	-
- Discontinued operations (note 16)	**-**	200
Total	**-**	200

The Company's subsidiary, Frontier Resources International Inc. ("FRII"), acquired on 20 March 2009 the 49.5% interest in the capital of Bison Investments II Limited ("Bison"), a Texas Limited Partnership which holds a portfolio of producing oil and gas properties in Texas, USA. FRII and Gardner Energy Corporation, a related party, each have a 50% interest in Repetrol LLC, the General Partner of Bison, which has exclusive management powers over the business and affairs of Bison and holds a 1% interest in Bison. The investment was disposed of with the sale of the US assets effective 31 July 2012.

Summarised financial information for the associate is set out below.

	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Aggregated amounts relating to associate:		
Total assets	**-**	425
Total liabilities	**-**	(25)
Net assets of associate	**-**	400
Groups share of associate's net assets	**-**	200
Total revenue for year	**114**	263
Loss for the year	**208**	(152)
Group's share of associate's loss (note 16)	**104**	(76)

14 Trade and other receivables

	Group		Company	
	31 December 2012 $'000	31 December 2011 $'000	**31 December 2012 $'000**	31 December 2011 $'000
Trade receivables	**-**	24	**-**	6
Prepayments	**17**	17	**15**	15
Other receivables	**9**	11	**9**	-
	26	52	**24**	21
Average credit period granted on sales in days	**n/a**	45		

All amounts are due within three months. No amounts are past due and no amounts are impaired.

15 Trade and other payables

	Group		Company	
	31 December 2012 $'000	31 December 2011 $'000	**31 December 2012 $'000**	31 December 2011 $'000
Trade payables	**191**	82	**190**	58
Director's current account	**206**	94	**135**	24
Licence fee payable	**756**	-	**756**	-
Accruals	**110**	60	**110**	65
	1,263	236	**1,191**	147
Average credit period taken on purchases in days	**80**	77		

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs and are payable within 3 months.

Licence fee payable is due in respect of the Oman licence. An amount of $750,000 has been held as restricted cash as at 31 December 2012 and was used in January 2013 to settle the licence fees due.

The director's current account relates to Michael J Keyes and represents in part the distribution of net current assets of FRII immediately prior to its acquisition. As part of the share purchase of FRII, the Company agreed to collect the net current assets prior to acquisition on behalf of the vendor, Michael J Keyes, a director of the Company. The director's current account is non-interest bearing and, although repayable on demand, the director has confirmed the amount will not be called before 30 June 2014.

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

16 Discontinued operations

The Company completed the sale process for its US oil properties effective 31 July 2012 and has therefore reclassified both non-current assets and liabilities as held for sale in 2010 and 2011. The consolidated statement of financial position for the years 2011 and 2012 shows these assets and liabilities for the discontinued operations separately.

	31 December 2012	31 December 2011
Property, plant and equipment (note 13)	-	275
Investment in associate (note 13)	-	200
Non-current assets	-	475
Provision for decommissioning (note 17)	-	(44)
Deferred tax liability (note 18)	-	(75)
Non-current liabilities	-	(119)

Non-current assets are classified separately as held for sale in the statement of financial position when their carrying amount will be recovered through a sale rather than continuing use. This condition is only met when the sale is highly probable, assets are available for immediate sale in current condition, and the management is committed to the sale which should be completed within one year of the classification. Liabilities directly associated with the assets classified as held for sale and expected to be included as part of the sale transactions are correspondingly also classified separately. Property, plant and equipment once classified as held for sale are not subject to depreciation or amortisation. The net assets and liabilities of a disposal group classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The profit or loss and net cash flow from assets held for sale is analysed below.

Loss for discontinued operations

	Notes	**2012 $'000**	2011 $'000
Revenue	4	**53**	127
Cost of sales			
Impairment of oil and gas assets		**(93)**	-
Depletion of oil and gas assets		**(37)**	(79)
Other cost of sales		**(54)**	(90)
Total cost of sales		**(184)**	(169)
Gross loss		**(131)**	(42)
Other income		**4**	2
Administrative expenses		**(18)**	(34)
Operating loss		**(145)**	(74)
Share of associate's loss	13	**104**	(76)
Loss before tax		**(41)**	(150)
Taxation credit	10 & 18	**-**	16
Loss for the year		**(41)**	(134)

16 Discontinued operations (continued)

Cash flows of discontinued operations	2012 $'000	2011 $'000
Loss for the year	**(41)**	(134)
Adjustments for:		
Depreciation of plant and equipment	**2**	-
Depletion of oil and gas assets	**37**	79
Impairment loss of oil and gas assets	**93**	-
Share of associate's (profit)/loss	**(104)**	76
Increase in trade and other receivables	**-**	(6)
Increase in trade and other payables	**6**	3
Decrease of provisions	**(44)**	-
Taxation credits taken to income	**-**	(16)
Profit on disposal of fixed assets	**13**	-
Net cash (used in)/from discontinued operations	**(38)**	2

17 Provision for decommissioning

	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
At 1 January	**44**	44
Change of estimates	**-**	(2)
Unwinding of discount and effect of changes in discount rate	**1**	2
Disposal of US oil & gas assets	**(45)**	-
At 31 December	**-**	44

The provision for decommissioning represents the present value of the asset retirement obligations associated with the Group's future abandonment of oil and gas properties. The provision for decommissioning is estimated after taking into account of inflation, years to abandonment and an appropriate discount rate. The timing of the economic outflows relating to this provision is uncertain but is not due within one year of the year end.

Actual decommissioning costs will ultimately depend upon future market prices for the decommissioning work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain. The actual amounts paid for decommissioning may ultimately vary significantly from the provision at the year ends requiring potentially material adjustments to the carrying value of the obligations.

The provision for decommissioning has been classified separately with liabilities held for sale on the statement of financial position (note 16) for 2010 and 2011, in 2012 the balance was disposed together with the US assets effective 31 July 2012.

18 Deferred tax liability

Deferred tax is calculated in full on the fair value uplift on business combinations at the prevailing tax rate that relates to the acquired business assets of 34% (the US tax rate). The movement on the deferred tax account is as shown below:

	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
At 1 January	**75**	91
Deferred tax credited to the income statement	**-**	(16)
Eliminated on disposal	**(75)**	-
At 31 December – discontinued operations (note 16)	**-**	75

Deferred tax liabilities were recognised in respect of business combinations entered into by the Group. The release of deferred tax to the income statement represents the deferred tax effect of the impairment of fair value of the tangible fixed assets acquired with the subsidiary. The deferred tax liabilities held for sale have been classified separately on the statement of financial position (note 16).

Deferred tax assets in respect of unutilised tax losses have not been recognised at the year end since their recovery is uncertain during the foreseeable future based on the projected future profits. Tax losses may be carried forward with no time limit.

19 Share capital

Issued share capital
The issued share capital was as follows:

Company	**Ordinary Shares Number**	**Share Capital $'000**	**Share Premium $'000**
At 1 January 2011	61,764,408	984	1,156
Issue of share capital	7,888,791	131	677
At 31 December 2011	69,653,199	1,115	1,833
Issue of share capital	**5,585,140**	**90**	**614**
At 31 December 2012	**75,238,339**	**1,205**	**2,447**

The Company has one class of ordinary shares which carry no right to fixed income. Details of the Group's share options in issue are shown in note 8.

20 Notes to the statement of cash flows

Cash from continuing operating activities	**Year ended 31 December 2012 $'000**	Year ended 31 December 2011 $'000
Operating loss – continuing operations	**(859)**	(698)
Adjustments for:		
Depreciation of plant and equipment	**1**	3
Restricted cash	**(750)**	-
Decrease/(increase) in trade and other receivables	**26**	(23)
Increase in trade and other payables	**271**	52
Share-based payments	**73**	137
Shares issue in exchange for consulting services	**-**	-
Net cash used in continuing operating activities	**(1,238)**	(529)

21 Related party transactions

Intercompany transactions

Balances and transactions between the Company and its subsidiaries, which are a related party, have been eliminated on consolidation and mainly comprise amounts lent by the Company to the subsidiaries (see note 13).

Transactions with associate

Transactions and the relationships between the Group and its associate are disclosed in note 13.

Remuneration of key management personnel

The remuneration of the directors, who were the key management personnel of the Group in 2012, is set out below in aggregate for each of the categories specified in IAS 24, 'Related Party Disclosures'.

	Year ended 31 December 2012 $'000	Year ended 31 December 2011 $'000
Short term employment benefits	**194**	105
Share-based payments	**62**	137
	256	242

Balance owing on directors' current account

The Group owes Michael J Keyes, the CEO at 31 December 2012 a balance of $206,000 at 31 December 2011 a balance of $94,000 and at 31 December 2010 $86,000 (note 15) which is unsecured and will be settled in cash. No guarantees have been given or received.

22 Financial instruments and financial risk factors

The carrying amounts of the financial instruments are set out below. Details of the significant accounting policies including the criteria for recognition, the basis of measurement and the bases for recognition of income and expense for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

	Group		Company	
	31 December 2012 $'000	31 December 2011 $'000	**31 December 2012 $'000**	31 December 2011 $'000
Financial Assets				
Loans and receivables (including cash and cash equivalents)	**792**	366	**47**	289
	792	366	**47**	289
Financial Liabilities				
Payables and borrowings	**1,263**	236	**1,192**	147
	1,263	236	**1,192**	147

Derivatives
The Group and Company have no derivative financial instruments.

Fair values
The directors consider that the carrying amounts of financial assets and financial liabilities approximate their fair values.

Financial risk factors
The Group has exposure to a number of different financial risks arising from its business operations including market risks relating to commodity prices, foreign currency exchange rates, interest rates, credit exposures and liquidity risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The directors determine, as required, the degree to which it is appropriate to use financial instruments or other hedging contracts or techniques to mitigate risk. The main risk affecting such instruments is foreign currency risk which is discussed below. Throughout the year ending 31 December 2012 no trading in financial instruments was undertaken (2011: none) and the Group did not have any derivative or hedging instruments.

Market risk
Market risk is the risk or uncertainty arising from possible market movements and their impact on the performance of the business and the value of the assets, liabilities or expected cash flows. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

22 Financial instruments and financial risk factors (continued)

Foreign currency risk

Foreign currency exchange rates could impact the results of the Group as well as the future cash flows and values of its financial instruments. The Group undertakes transactions denominated in foreign currencies (other than the functional currency of the Company, £ Sterling), with exposure to exchange rate fluctuations.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities were:

	Group		**Company**	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	$'000	$'000	**$'000**	$'000
Financial Assets				
Sterling	**798**	304	**47**	304
US Dollars	**(6)**	79	**-**	-
	792	383	**47**	304
Financial Liabilities				
Sterling	**1,261**	205	**1,192**	147
US Dollars	**2**	31	**-**	-
	1,263	236	**1,192**	147
Impact of a 10 per cent. change in the sterling/dollar exchange rate, if all other variables were constant, on reported losses with a corresponding impact on net assets	**(47)**	11		

Interest rate risk

The Group is exposed to interest rate risk because the Group borrows and deposits funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate cash deposits and borrowings.

The losses recorded by both the Group and the Company for the year ended 31 December 2012 would not materially increase/decrease if interest rates had been significantly higher/lower and all other variables were held constant.

Credit risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. The Group seeks to limit credit risk on liquid funds through trading only with counterparties that are banks with high credit ratings assigned by international credit rating agencies.

The Group's principal financial assets are bank balances, cash, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. Receivables are regularly monitored and assessed for recoverability. The Group has no significant concentration of credit risk as exposure is spread over a number of customers.

22 Financial instruments and financial risk factors (continued)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the yearend was:

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	$'000	$'000	**$'000**	$'000
Trade and other receivables excluding prepayments	**759**	35	**9**	6
Cash and cash equivalents	**16**	331	**23**	283
	775	366	**32**	289

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and putting in place programmes for raising capital, maintaining adequate banking facilities and managing short-term surplus funds in bank deposits.

In managing its capital, the Group's primary objective is to maintain a sufficient funding base to enable working capital, exploration commitments and strategic investment needs to be met and therefore to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders. In making decisions to adjust its capital structure to achieve these aims, through new share issues, the Group considers not only its short term position but also its long term operational and strategic objectives.

The capital structure of the Group currently consists of cash and cash equivalents and equity comprising issued capital, reserves and retained earnings as disclosed in note 19 and the statement of changes in equity. The Group is not subject to any externally imposed capital requirements.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest due repayment dates. The Group has no finance debt.

	Year ended 31 December 2012		Year ended 31 December 2011	
	Non interest bearing	**Finance debt**	Non interest bearing	Finance debt
	$'000	**$'000**	$'000	$'000
Group				
Within 6 months	**1,057**	**-**	142	-
6 months to 1 year	**-**	**-**	94	-
Over 1 year	**206**	**-**	-	-
	1,263	**-**	236	-
Company				
Within 6 months	**1,057**	**-**	123	-
6 months to 1 year	**-**	**-**	24	-
Over 1 year	**135**	**-**	-	-
	1,192	**-**	147	-

23 Obligations under operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are:

	Group		Company	
	31 December 2012 $'000	31 December 2011 $'000	**31 December 2012 $'000**	31 December 2011 $'000
No later than 1 year	**156**	161	**-**	-
Less than 1 year, and not later than 5 years	**17**	169	**-**	-
Later than 5 years	**-**	-	**-**	-

24 Exploration and evaluation commitments

The Group does not have any exploration or work programme commitments as the Group has the right to withdraw from its license areas at any stage. Its planned expenditure for the near term is as follows:

	Group		Company	
	31 December 2012 $'000	31 December 2011 $'000	**31 December 2012 $'000**	31 December 2011 $'000
No later than 1 year	**1,556**	94	**-**	-
Less than 1 year, and not later than 5 years	**19,024**	446	**-**	-
Later than 5 years	**-**	-	**-**	-
To be incurred in USA	**-**	-	**-**	-
To be in incurred in Rest of World	**20,580**	540	**-**	-

25 Contingent liabilities

Due to the nature of the Group's business, some contamination of oil and gas properties in which the Group has an interest in is possible. Environmental site assessments of the properties would be necessary to adequately determine remediation costs, if any.

The directors do not consider the amounts that would result from any environmental site assessments to be significant to the financial position or results of operations of the Group. Accordingly, except for the provision made against decommissioning costs (note 17), no further provision for potential remediation costs is required.

26 Subsequent events

On 7 January 2013, Frontier Resources International Plc raised £140,000 (before expenses) through the issue of 1,750,000 new Ordinary Shares at 8p per Ordinary Share and on 29 January 2013 raised a further £122,104 (before expenses) through the issue of a further 1,526,300 new Ordinary Shares at 8p per Ordinary Share: In aggregate, the Company raised £262,104 (before expenses of £13,105). On 25th January 2013 the payment of the signature bonus, and the first year costs for Oman totaling $750,000 was completed.

27 Control

The Company is under the control of its shareholders and not any one party.