



DEO Petroleum plc
Annual Report
for the year ended 31 December 2010







DEO Petroleum plc is a North Sea Operator, focused on oil exploitation. As a result of the acquisition of a 42% interest in the Perth Licence on 30 November 2010, the Company is well positioned to submit a Field Development Plan by Q4 2011, which will, if approved, target first oil production in 2013.

“Using the significant expertise and experience of its management team, the Company plans to use its Perth interests as a foundation for growth and to target other small fields in the North Sea to build a strong portfolio of exploitation opportunities.”



An emerging independent
oil company within
the UKCS





DEO

Aberdeen, UK

Main hub for the operations of most of North Sea operators

Annual Report for the year ended 31 December 2010

Contents

<i>Chairman's Statement</i>	7 – 8
<i>Business Review</i>	9 – 13
<i>Directors' Report</i>	14 – 21
<i>Directors' Responsibility Statement</i>	22 – 23
<i>Independent Auditor's Report</i>	24 – 25
<i>Consolidated Statement Of Comprehensive Income</i>	26
<i>Consolidated Statement Of Changes In Equity</i>	27
<i>Consolidated Balance Sheet</i>	28
<i>Consolidated Cash flow Statement</i>	29
<i>Notes To The Consolidated Financial Statements</i>	30 – 45
<i>Company Balance Sheet</i>	46
<i>Company Statement Of Changes In Equity</i>	47
<i>Company Statement Of Cashflows</i>	48
<i>Notes To The Company's Financial Statements</i>	49 – 53



Chairman's Statement for the year ended 31 December 2010

I am pleased to report on a highly successful year for DEO for the year ended 31 December 2010. On 30 November 2010, in line with our stated strategy, DEO completed the acquisition of 42.08% of the Perth Licence area, from Nexen Petroleum plc (the "Acquisition"), and became operator of the Perth licence. At the same time, DEO successfully completed an institutional share placing, raising £14.8m (net of expenses). Consequently, the Group's consolidated net assets at 31 December 2010 have increased substantially to £15.2m and the Group remains debt free.

The acquisition constituted a fundamental change in the business of the Company from an investment holding company and was classed as a reverse takeover under the AIM Rules. As a consequence, the Directors obtained Shareholder approval for the Acquisition at a General Meeting held on 30 November 2010.

With Perth the Group acquired a base case 8.7mboe of Net Contingent Resources in a field (Perth Core) which is fully appraised. Additional appraisal and exploration opportunities are available to us within the wider Perth licence area which could substantially increase recoverable oil volumes. As operator, we are required with our partners to submit a Field Development Plan (FDP) for the Perth Licence Area to DECC by September 2011, and subject to Department of Energy and Climate Change (DECC) approval, are aiming to be in a position to raise the necessary capital to develop the field, targeting first oil in 2013.

Management team

The Company added substantially to the strength of its management team during 2010 with the recruitment of Gregor Goodwin as Chief Financial Officer (Executive Director), Richard Mays as Vice President of Commercial & Legal (Executive Director), Adrian Jones as Vice President of Operations, and Mike Coulthard as Vice President of Engineering. In March 2011, the Company completed the recruitment of its senior team with the appointment of Mike Cooper as Vice President of Exploration & Subsurface.

In addition to Chief Executive, David Marshall, all members of the senior management team are significantly experienced in their specialist fields, and more importantly have a history of working together and delivering success over the last 20 years.

Results

The Group's operating loss for the year was £0.8m (2009: £0.08m). The Group's loss before tax was £0.8m (2009: £0.08m). The Group's consolidated net assets at 31 December 2010 increased to £15.2m (2009: £0.1m), largely as a result of the raising of £14.8m via the share placing and the subsequent acquisition of Perth asset for £10.5m. The Group held cash and cash equivalents and liquid investments of £4.9m (2009: £0.1m). The net asset value per ordinary share as at 31 December 2010 was 35p (2009: nil).

The Board is not recommending the payment of a dividend in 2010 (2009: nil).

Tax

Changes to the taxation regime affecting North Sea oil companies were announced by the UK Government on 22 March 2011, increasing the rate of Supplementary Corporation Tax from 20% to 32%. The existing main rate of Corporation Tax remains at 30%. Whilst the Directors anticipate that the Group will not be liable to pay UK Corporation tax until at least 2015, this change to the Supplementary Corporation Tax rate will adversely impact potential future profits of the Group. The Directors are confident the Group should benefit from the current small field allowance regime which shelters £75m of profits against the Supplementary Corporation Tax, for fields with less than 26mm boe. The Group will also benefit from the ringfence expenditure supplement regime, which adds 6% compound annual growth to the amount of expenditure incurred up until relief is given against taxable profits. This in particular is attractive to small companies such as DEO who have no offsetting production or allowable losses for tax purposes.

There are discussions ongoing between HM Treasury officials and the UK Oil industry, in which DEO is taking an active part, regarding a review of the current tax allowance regime to ensure that continued investment in the North Sea is not adversely impacted by the tax increase. If successful, any changes to the tax allowance scheme should further shelter DEO's tax burden and enhance development returns.

Chairman's Statement (continued) for the year ended 31 December 2010

Strategy and future outlook

We anticipate that recent North Sea tax changes could accelerate the asset disposals by the large oil companies in the North Sea, in favour of deploying their capital in other parts of the oil producing world. If they do, DEO is well placed to take advantage to acquire and build a portfolio of profitable assets with near term exploitation potential.

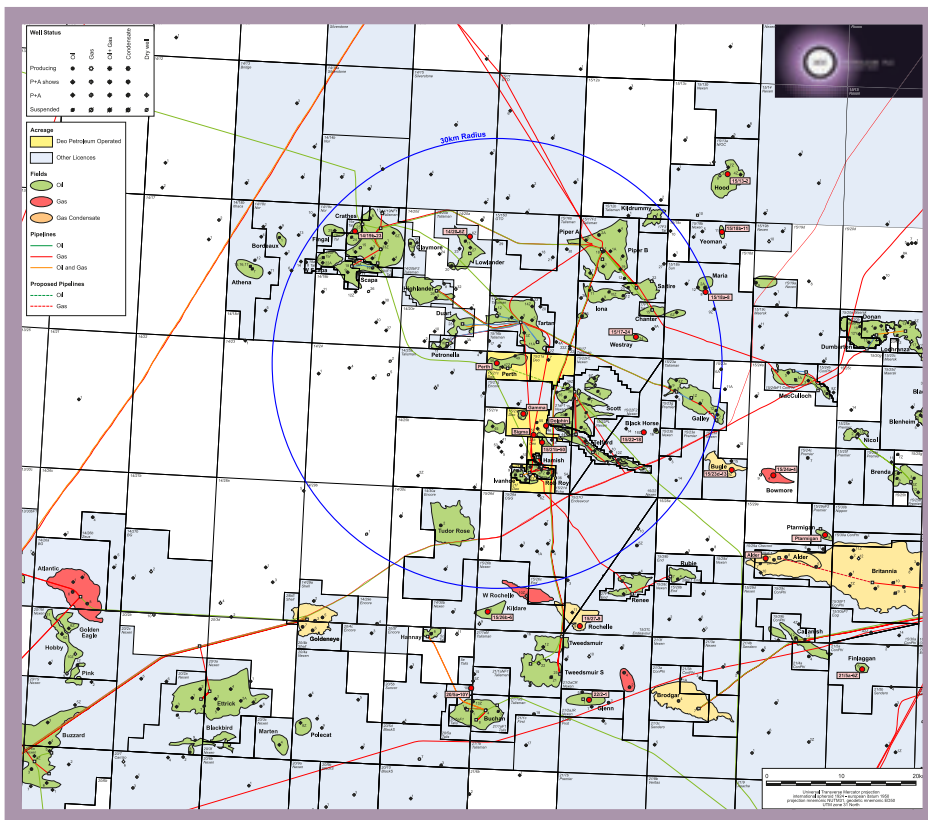
In May 2011, the Company announced a new strategic relationship with Parkmead Group, led by Tom Cross (ex-CEO of Dana Petroleum plc). The exploration and exploitation skills of both companies will combine well to target new North Sea opportunities, including joint participation in the anticipated UKCS 27th Licencing Round.

The Directors anticipate that suitable and attractive acquisition opportunities will be presented in the near term, both within the wider Perth area (within 30km radius of Perth Core), and in other known and commercially attractive areas of the North Sea.

Kevin A.F. Burke

Chairman

Business Review for the year ended 31 December 2010



Perth Licence Area

The production licences which were acquired in November 2010 are P588 (Blocks 15/21c (All) and 15/21b (Residual Area)) and P218 (Block 15/21a (Residual Area)), containing Perth Core, Perth North, Perth Beta Terrace, Beta East, plus the Sigma, Dolphin and Gamma discoveries. DEO's partners in the licence are Faroe Petroleum UK Limited (28%), Maersk Oil UK Limited (19.12%), and Atlantic Petroleum UK Limited (10.82%).

The Perth Field Development is located approximately 185km northeast of Aberdeen in a water depth of 137m (450ft). The discovery well 15/21a-7 was drilled in 1983 and tested oil in the Claymore sands of the Upper Jurassic Kimmeridge Clay Formation. Three subsequent appraisal wells (15/21b-47, 15/21b-49, 15/21b-56) and one sidetrack (15/21b-47y) were drilled by Hess between 1992 and 1997. The wells were production tested at rates varying from 1,000 to 6,000 bopd, all with hydrogen sulphide content (2,500-8,500ppm) and carbon dioxide (25-42 mol per cent.) in the associated gas.

The Perth Field Development has subsequently been divided into four main areas by an east-west fault to the north of the three appraisal wells and a north-south fault zone between these wells and the initial discovery well. The areas are referred to as:

- Perth Core – contains the three appraisal wells and one sidetrack
- Perth North – undrilled upside
- Perth Beta Terrace – contains discovery well 15/21a-7
- Perth Beta East – undrilled upside.

Business Review (continued) for the year ended 31 December 2010

The Perth Field is essentially a stratigraphic trap comprising Claymore Member turbidite sands enclosed in the Upper Jurassic Kimmeridge Clay Formation. The structure dips steeply to the south, providing a dip closure. An east to west fault system partially offsets most of the reservoir, separating the field into “Core” and “North”. Deposition was strongly influenced by faulting, resulting in thickness changes and onlap. The four wellbores in the Perth Core area show reasonable well correlation from biostratigraphy and well logs and the reservoir has been subdivided into four main zones.

There are no wells in North Perth, so producible hydrocarbons are not proved here. However, some 4km east of the Core area on the Beta Terrace, well 15/21a-7 encountered a thinner hydrocarbon section which can be broadly correlated with the Perth Core area using logs and biostratigraphy. Consequently, the Directors consider the chance of finding producible hydrocarbons in Perth North is high.

FDP approval for the Perth licence

Any operator wishing to develop a new field is required to apply for development consent from the DECC. This process is initiated by the submission of a FDP, a summary description of the proposed development and the principles and objectives which will govern the field’s management, together with an Environmental Statement (ES) discussing the environmental impact of the proposed development.

A team within DECC is then appointed to carry forward the technical discussion on the field and to coordinate, where necessary, DECC’s response on policy issues. Typically, there will be alignment between DECC and the operator’s objectives, however DECC will need to be satisfied that the proposed development plan maximises economic recovery from the field. It will also endeavour to ensure that, in selecting the preferred option, licensees take into account the implications for other developments in the area.

Following FDP approval for the Perth licence, which the Directors estimate will be achieved during Q1 of 2012, the co-venturers would commit their respective share of the capital required to proceed to development. The Directors anticipate that, subject to FDP approval and to the Company being able to secure additional funding to meet its share of the development costs, the development will target first oil in 2013.

Commercial discussions on the two main development options being considered are ongoing, namely a subsea tie-back to the Tartan platform and a Floating Production Storage Offtake (FPSO) development. Both are viewed by the Directors as viable surface development options for the Perth Core area. The independent Competent Persons Report (CPR) undertaken by AGR TRACS as at September 2010 has assessed the Perth Core contingent resources for both options, as set out below. Perth North and Beta Terrace and East could be developed using either development option.

TARTAN Perth Core	Gross Contingent Resources			Net Contingent Resources		
	1C	2C	3C	1C	2C	3C
MM boe	11.7	20.6	29.5	4.9	8.7	12.4

FPSO Perth Core	Gross Contingent Resources			Net Contingent Resources		
MM boe	18.4	27.6	38.2	7.7	11.6	16.1

Perth Beta Terrace	1C	2C	3C	1C	2C	3C
MM boe	0.6	0.9	1.4	0.2	0.4	0.6

Perth North	Gross Contingent Resources			Net Contingent Resources		
	Low	Mid	High	Low	Mid	High
MM boe	2.4	4.4	7.4	1.0	1.9	3.1

Perth Beta East	Gross Contingent Resources			Net Contingent Resources		
	Low	Mid	High	Low	Mid	High
MM boe	0.3	2.6	7.9	0.1	1.1	3.3

(Source: AGR TRACS)

The Directors believe that greater oil recovery is likely with the FPSO option, given greater production capacity than is anticipated being available with the Tartan facility, and also through the use of water injection technology which significantly improves recovery rates achievable.

Timing

A decision will be made in due course, following consultation with the Company's co-venturers on the Perth licence, on which development option to pursue and submit to DECC as part of the FDP. The Directors believe that the following key project milestones are necessary to achieve first oil in 2013:

- Dialogue with DECC in relation to FDP approval initiated in 2011
- Commercial agreement finalised and heads of terms with infrastructure provider expected to be reached in Q3 2011
- Completion of front end engineering and design (FEED), and environmental studies in Q3 2011
- Submission of FDP to DECC by 30 September 2011 followed by additional capital raise to secure funding to fulfil DEO's share of development costs
- Subsea infrastructure to be in place for drilling to commence in 2013.

Business Review (continued) for the year ended 31 December 2010

The Board



Kevin A.F. Burke FCA - *Chairman*

Aged 65, Kevin has 30 years experience in the structuring and financing of transactions and the broader strategic development of companies in the natural resources and oil and gas sectors. He was co-founder and Executive Chairman of two publicly listed companies, Dana Petroleum and Vanguard Petroleum; a pioneer Western company in oil production in the West Siberian oil province of the former Soviet Union (which was subsequently sold to Sibir Energy), and a Non Executive Director of Oilexco. Prior to that, he worked in corporate finance, M&A and venture capital. He is a qualified chartered accountant and holds a Sloan Fellowship from the London Business School.



David L. Marshall - *Chief Executive Officer*

Aged 53, David has 30 years petroleum industry experience in USA, West Africa, North Africa, Turkmenistan, Middle East, Holland and the North Sea. He has oilfield management experience in major oil companies, Gulf, Hess, Lasmo and Eni. He has operated large North Sea facilities including Tiffany, Balmoral and Markham. At Oilexco, he led the Brenda and Nicol tiebacks which were completed successfully. He also led the acquisition of Balmoral and assumption of production operatorship over a 4 month period and led projects on Huntington, Shelley, Ptarmigan and Caledonia which were in progress at time of sale to Premier Oil plc. Combined drilling and project value of £350 million. Masters degree in Petroleum Engineering from Heriot Watt University, Bachelors degree (Hons) Civil Engineering.



Gregor J. Goodwin - *Chief Financial Officer*

Aged 39, Gregor is a qualified Chartered Accountant with 19 years of Financial and Private Equity experience. He was a Director of European Buyouts & UK Private Equity with 3i, and a Senior Director with Lloyds Banking Group. He has significant capital raising experience in debt and equity markets. He is a qualified chartered accountant (KPMG trained) and has B.Acc (Hons 1st) from Glasgow University.



Richard P. Mays - *Director & General Counsel*

Aged 50, Richard is a Scots qualified solicitor. He has wide experience of UKCS acquisitions and divestments, decommissioning agreements, upstream infrastructure agreements and oil and gas commercial contracts. He has acted as a consultant to other oil and gas companies and has advised a large number of energy industry companies. Formerly Professor of Law at The Robert Gordon University and Deputy Dean of the Aberdeen Business School, he delivers training both in the UK and internationally in the field of oil and gas commercial contracts.



Rakesh R. Patel - *Non-Executive Director*

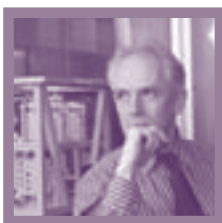
Aged 47, Rakesh has a degree in Economics from Thames Valley University. He qualified as a chartered certified accountant with Gerald Edelman, a London firm of Chartered Accountants. Rakesh joined Adler Shine LLP, chartered accountants, as an equity partner where he heads the Corporate Finance division. Rakesh is also on the board of The Niche Group plc and Edenville Energy plc, both AIM quoted companies in the oil and gas and energy (coal and uranium) industries.

Senior Management Team



Adrian Jones - *Vice President, Operations*

Adrian has 24 years of petroleum industry experience. He has drilling management experience from both an operator and contractor perspective with Marathon, Hess, Baker and Transocean. He is a recognised leader in high efficiency drilling in Central North Sea. He has managed the Wells Group, which ran between 2 and 3 rigs over 4 years drilled 137 wells (including sidetracks), drilled over 960,000 ft, carried out 19 well tests, 5 HPHT or near HPHT wells and 9 horizontal production wells - 2 being subsea dual ESP completions. Throughout this period he drilled the most Exploration and Appraisal wells of any North Sea operator. He has a masters degree in Petroleum Engineering from Imperial College.



Mike Coulthard - *Vice President, Engineering*

Mike has 30 years experience in subsea developments and drilling engineering with Hess, Smedvig, Ingen and UWG in all aspects of subsea development and abandonment. He has wide experience in the application of floating production facility technology, and was Project Manager for the Brenda and Nicol developments. Mike was Industry recognised as most effective user of new technology and is a Queens award winner for subsea innovation. Development consisted of the first application of an integrated subsea manifold using a multiphase booster pump and meter in combination with their lightweight multiport selector manifold, and a new JV control system using high bandwidth fibre optic controls. He has a BSc degree (Hons) in Petroleum Engineering from Imperial College.



Mike Cooper - *Vice President, Exploration and Subsurface*

Appointed 7 March 2011, Mike has 31 years experience mainly in the North Sea with a proven track record with operating oil companies, including BP, Kerr-McGee, Lundin, Maersk, Amoco, and Enquest. He has a working knowledge of many of the oilfields, discoveries and play systems including Affleck, Broom, Dumbarton, Gryphon, Heather, Hutton, Murchison, Ninian and Thistle. He is a former DECC employee, director of PESGB and founder and chairman of DEVEX conference. He has a BSc in Geological Sciences and MSc in Petroleum Geochemistry.

Directors	David L Marshall Kevin A F Burke Gregor J Goodwin Richard P Mays Rakesh R Patel	<i>(Chief Executive Officer)</i> <i>(Chairman)</i> <i>(Chief Financial Officer)</i> <i>(Executive Director)</i> <i>(Non-Executive)</i>	
Secretary	David Venus & Company Limited	Nominated Advisor & Joint Broker	Canaccord Genuity Limited Cardinal Place, 80 Victoria Street London SW1E 5JL
Company Number	03882653		
Registered Office	5 Old Bailey London, EC4M 7BA	Broker	FirstEnergy Capital LLP 85 London Wall London, EC2M 7AM
Auditors	Deloitte LLP Union Plaza 1 Union Wynd Aberdeen, AB10 1SL	Solicitors	McGrigors LLP Princes Exchange, 1 Earl Grey Street Edinburgh, EH3 9AQ
Bankers	Royal Bank of Scotland Plc Aberdeen Queen's Cross Branch 40 Albyn Place, Aberdeen, AB10 1YN	Registrar	Neville Registrars Limited Neville House, 18 Laurel Lane Halesowen, West Midlands, B63 3DA

Directors' Report for the year ended 31 December 2010

The Directors present their annual report and the audited financial statements for the year ended 31 December 2010.

Principal activities

The principal activity of the Group is to identify and acquire oil and gas exploration licences which satisfy the Group's investment criteria and operate these licences to deliver value to the Group and its partners.

Business review and developments

The Business Review on pages 9 to 13 provides a review of the business and future developments.

Principal risks and uncertainties

As noted DEO is focused on making investments in the oil and gas sector and as a consequence the Group is exposed to a range of strategic, operational, financial and external risks in the conduct of its operations.

The Board has a strong commitment to corporate risk management and the Board regularly reviews the risks to which the Group is exposed and endeavours to minimise these risks as far as possible by the actions outlined below. The following summary, which is not exhaustive, outlines some of the risks and uncertainties facing the Group:

FDP approval

As noted in the Chairman's Statement, the Group is required to submit an FDP to DECC for approval in respect of Perth Assets by 30 September 2011. However, there can be no guarantee that this approval will be forthcoming within the predicted timescale, on the submitted terms, or at all. In the event that approval is obtained later than expected or is subject to onerous conditions or material amendment, then the Group could default and lose its interest in the Perth Assets and the JOA. In the event that approval is subject to material amendment, there could be delays and increased costs incurred by the Group in development. In the event that the approval is refused or is subject to onerous terms, then there may be a considerable delay in bringing the fields to production, if at all, while further FDP is submitted and the expected timetable for production may also be materially delayed which would result in delayed or no cash generation by the Group and may have a material adverse effect on the Group's business, prospects, financial condition and operations.

The Board is continuing to work closely with its co-venturers and to engage in regular dialogue with DECC as the Group seeks to finalise the FDP ahead of submission to DECC by 30 September 2011.

Liquidity risk

As noted above, management are currently working with co-venturers to produce a FDP for submission to DECC by the required deadline of 30 September 2011. Consequently neither the Company nor the Group have any formal commitments to incur any expenditure under this plan at the date of this report. However, once the commitments under the FDP have been agreed with DECC, the Group will be required to raise its share of the development costs of the Perth Assets from the debt and equity markets at around the end of 2011/start of 2012 or by farm-out arrangements with other oil companies. Whilst the Board is confident, based on current investment assumptions, that it will be in a position to present an attractive investment to equity investors and lending banks, the Group does face some risk that the capital markets do not offer the optimum funding package at the time when additional finance is needed. If additional financing is not available, or available only on terms that are not acceptable to the Group, it will not be able to fund the development of the Perth Assets and, in the event that it cannot meet its obligations under the FDP, the Group could default and lose its interest in the Perth Assets and the JOA.

The Board regularly reviews the Group's cashflow projections and forecasts to manage the Group's short-, medium- and long-term funding and liquidity requirements. The Board will work closely with the Group's financial advisers, FirstEnergy Capital and Canaccord Genuity, both of whom have a successful track record of fund raising in the oil sector, to ensure that its approach to the capital markets is well considered and presented at the best possible time.

Loss of key management and other key personnel

The Group's success depends to a significant extent on the continued services of its core senior management team and other key personnel. Because competition to attract such personnel is intense in the industry, if one or more of these individuals were unable or unwilling to continue in his/her present position, the Group's business could be disrupted and it might not be able to find replacements on a timely basis or with the same level of skill and experience. Finding and hiring any such replacements could be costly and might require the Group to grant significant equity awards or other incentive compensation, which could adversely impact its financial results.

The Board aims to manage this risk through the implementation of salary, bonus and long-term incentive arrangements designed to incentivise loyalty and good performance.

Exploration and development risk

There are risks inherent in the development of oil and gas reserves. Whilst the rewards can be substantial, there is no guarantee that the Group's activities will lead to commercial discoveries. Oil and gas development activities by their nature involve significant risks. Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some petroleum, are not sufficiently productive to justify commercial development or cover operating and other costs.

Competition

A number of other oil and gas companies operate and we are allowed to bid for, licences in the UK Continental Shelf where the Group intends to operate in the future, thereby providing competition to the Group. Larger companies, in particular, may have access to greater resources than the Group which may give them a competitive advantage.

Joint venture party and partners

Non-alignment of the Group and its co-venturers in the development of the Perth Assets may result in operational inefficiencies and delays. The Group mitigates the risk by continuous and regular engagement of its joint venture partners.

Commodity price risk

The demand for, and price of, oil and gas is highly dependent on a variety of factors, including international supply and demand, the level of consumer demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. Geographic location and a lack of adequate infrastructure may also result in any oil or gas produced being sold at a discount to world market prices for oil and gas. International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. The Perth asset acquisition was agreed when the oil price was approximately \$75 per barrel. Oil prices currently lie in the \$100 to \$120 per barrel range.

DEO's budgeting and planning assumptions for exploration and other investments are formed at a level below the general consensus which provides some mitigation to adverse oil price movement.

FX risk

The Company is exposed to fluctuations in the exchange rate of the US dollar (in which commodity prices are expressed) against sterling which is the Company's functional and reporting currency.

As the Group has had no commercial production to date the Group does not currently hedge its foreign exchange exposure but the Board will continue to monitor this position in the future.

Health, safety, environment and security

Environmental and safety legislation in jurisdictions in which the Group operates may change in a manner that may require stricter or additional standards than those now in effect, a heightened degree of responsibility for companies and their directors and employees and more stringent enforcement of existing laws and regulations. There may also be unforeseen environmental liabilities resulting from oil and gas activities, which may be costly to remedy. In particular, the acceptable level of pollution and the potential clean up costs and obligations and liability for toxic or hazardous substances for which the Group may become liable as a result of its activities, may

Directors' Report (continued) for the year ended 31 December 2010

be impossible to assess against the current legal framework and current enforcement practices of the various jurisdictions in which the Group operates, or in which it may operate in the future.

The Group has an HSES management system to mitigate this risk.

Results and dividends

The Group's loss for the year after taxation amounted to £781,282 (2009: £80,077). The Directors do not recommend payment of a dividend (2009:nil).

Capital structure

On 28 May 2010, a capital reorganisation took place whereby the 330,681,200 Ordinary Shares of 0.01p each in issue were consolidated into 1,653,406 Ordinary Shares of 1p each and 1,653,406 deferred shares of 1p each.

On 28 May 2010, 4,400,970 new Ordinary Shares of 1p each were issued for cash at 13p each. The total proceeds amounted to £572,126.

On 20 August 2010, 1,500,000 new Ordinary Shares of 1p each were issued, by way of a private placing, for cash at 41p each. The total proceeds amounted to £615,000.

On 8 November 2010, 35,555,555 new Ordinary Shares of 1p each were issued, by way of a market share placing, for cash at 45p each. The total proceeds amounted to £16,000,000.

As at 31 December 2010, 43,109,931 Ordinary Shares were in issue. Share options are in place (nil exercised at 31 December 2010) over a further 4,300,000 Ordinary Shares.

For further details, see note 16.

Post balance sheet events

These are detailed in note 24 of the financial statements.

Directors

The Directors, who served during the year and at the date of this report, are:

Kevin A F Burke
 David L Marshall
 Rakesh R Patel
 Gregor J Goodwin (appointed 1 June 2010)
 Richard P Mays (appointed 6 October 2010)
 Nicolas D A Greenstone (resigned 29 September 2010)

Directors' interests

Directors' interests in the shares of the Company, including family interests at 31 December 2010 were:

	Number	%
Kevin A F Burke	1,153,845	2.68%
David L Marshall	1,153,845	2.68%
Gregor J Goodwin	384,700	0.89%
Richard P Mays	577,000	1.34%
Rakesh R Patel	77,877	0.18%

The following Directors held share options at 31 December 2010:

	Number of share options 2010	Average exercise price (p)	Number of share options 2009	Average exercise price (p)
Kevin A F Burke	578,191	45	-	-
David L Marshall	651,216	45	-	-
Gregor J Goodwin	578,191	45	-	-
Richard P Mays	578,191	45	-	-
Rakesh R Patel	40,000	45	-	-

The share options held by the Directors were all granted in November 2010. No options were exercised or lapsed in the year. The options vest over a period of 3 years. The share price of the Company at 31 December 2010 was 50.4p. The highest and lowest share prices in the year to 31 December 2010 were 126p and 25.06p respectively. The terms of the options are detailed in note 20.

Directors' remuneration

	Gross wages	Social Security Costs	Pension Contributions	Compensation for loss of office	2010 Total
Kevin A F Burke	12,500	869	-	-	13,369
David L Marshall	94,619	11,339	1,825	-	107,783
Gregor J Goodwin	57,333	6,720	1,208	-	65,261
Richard P Mays	13,750	1,486	1,208	-	16,444
Rakesh R Patel	10,833	-	-	-	10,833
Nicolas D A Greenstone	7,520	-	-	10,000	17,520
	196,555	20,414	4,241	10,000	231,210

Directors and officers indemnity insurance

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.

Personnel

The Group employed five people as at 31 December 2010 (2009: one). In addition two consulting companies and individuals are contracted to work with the Group on certain projects and in particular areas.

Disabled employees

The Group gives full consideration to applications for employment from disabled persons bearing in mind the aptitudes of the applicant involved. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Supplier payment policy

The Group's current policy concerning the payment of its creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the Group's contractual and other legal obligations.

Directors' Report (continued)

for the year ended 31 December 2010

Trade creditors at the year end all relate to sundry administrative overheads and disclosure of the number of days' purchases represented by year end creditors is not deemed to be meaningful.

Substantial shareholdings

On 18 May 2011, the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency rules, of the following voting rights as a shareholder of the Company:

Shareholders

Name of holder	Percentage of the issued capital %	No. of Ordinary Shares	Nature of holding
Och-Ziff Management Europe Ltd	19%	8,387,378	Indirect
RAB Capital plc	14%	6,140,047	Indirect
Bluegold Capital Management	12%	5,345,531	Indirect
Hargreave Hale	5%	2,304,444	Indirect
Altima Partners LLP	5%	2,222,222	Direct
Novum Securities Ltd	3%	1,367,000	Indirect
Sector Investment Managers Ltd	3%	1,111,111	Indirect

Corporate Governance

The Company is committed to high standards of corporate governance. DEO Petroleum plc, as an AIM listed company, is not required to comply with the June 2008 Combined Code on Corporate Governance. However, the Board recognises the importance of sound corporate governance and has ensured that the Company has adopted policies and procedures that the Directors consider appropriate to the Company's size, which reflect such Principles of Good Governance and the Code of Best Practice as published by the Committee on Corporate Governance (commonly known as the "Combined Code").

The Board

The Board, which is set up to control the Company and Group meets formally at least four times a year and in the year under review met on four occasions. As at the year end the Board was composed of five Directors – three Executive and two Non-Executive Directors. One of the Non-Executive Directors, namely Mr R Patel is considered by the Board to be independent, notwithstanding the fact that he has shares in the Company.

Each Board member receives the latest financial and management information each month, which consists of:

- management accounts setting out actual costs and revenues against budgeted costs and revenues
- cash collections and forecasts
- a statement of income compared with budget
- balance sheet values
- internal rate of return on investments.

The Board reserves to itself a range of key decisions to ensure it retains proper direction and control of the Group, whilst delegating authority to individual Directors who are responsible for the day to day management of the business. All Directors have access to the advice and services of the Company Secretary and can also seek independent professional advice, if necessary, at the Company's expense.

All appointments to the Board are discussed at a full board meeting and each member is given the opportunity to meet the individual concerned prior to an appointment being made.

All Directors are subject to re-election every three years in accordance with the Company's Articles of Association. Mr R Patel is due for re-election in 2011.

Committees

The Directors have delegated certain of their responsibilities to various committees, which operate within specific terms of reference and authority limits. The Audit Committee meets at least twice a year and consists of Mr K Burke and Mr R Patel (Chairman). Mr D Marshall and Mr G Goodwin attend by invitation. The duties of the Audit Committee include:

- Review of the scope and the results of the audit
- Assessment of the cost effectiveness of the audit
- Monitoring the independence and objectivity of the external Auditors
- Review and assessment of current updates of changes in accounting standards and their likely impact on the Group's accounts
- Review and assessment of the internal controls of the Company
- Assessment of the competencies of the financial human resources available to the Company.

The Chairman of the Audit Committee has recent and relevant financial experience. The Audit Committee advises the Board on the appointment, re-appointment or removal of the external auditors and on their remuneration. The Audit Committee discusses the nature and scope of the audit with the external auditors and provides a forum for reporting by the Group's external auditors on any matters it considers appropriate. It is the task of the Audit Committee to ensure that auditor objectivity and independence is safeguarded when non-audit services are provided by the external auditors. To ensure auditor objectivity and independence there is a process in place to approve any non-audit work at each Audit Committee meeting.

The Remuneration Committee, which consists of Mr K Burke and Mr R Patel (Chairman) also meets at least once a year, with Mr D Marshall attending by invitation. In the year ended 31 December 2010 the Remuneration Committee met once, the meeting was fully attended. The Remuneration Committee is responsible for reviewing the level and make-up of the remuneration of Executive Directors.

The Remuneration Committee is responsible for reviewing the level and make-up of the remuneration of the Company's Executive Directors. In doing so the Committee's aims are:

- To ensure that remuneration packages are sufficient to attract and retain Executive Directors of the requisite calibre;
- To ensure that the targets of the Group and its Executive Directors are aligned;
- To ensure that the remuneration policies adopted by the Group give full consideration to the requirements of the Combined Code; appended to the Listing Rules of the UK Listing Authority;
- To consider, and if thought fit, grant options to Executive Directors and staff under the Group's Option Schemes;
- Where applicable, to assess targets that should be used in the fixing of performance related pay for Executive Directors.

Such bonuses are paid at the discretion of the Remuneration Committee.

The remuneration of the Non-Executive Directors is determined by the Board within the limits set out in the Articles of Association.

The Executive Directors meet regularly on an informal basis and deal with decisions that do not require full Board approval. The Directors believe that this process for making business decisions provides sufficient division of responsibility to meet the requirements of the Combined Code.

Shareholder relations

The Company communicates with current and potential shareholders through the Annual Report and financial statements, the Interim Statement and any trading updates. Additionally, through the Company's website (www.deo-petroleum.com), the Company makes available announcements relating to progress on investments and industry relationships, which whilst not a regulatory requirement to be disclosed, provide investors with further insight as to progress made by the Company. Directors are available at the Annual

Directors' Report (continued) for the year ended 31 December 2010

General Meeting where shareholders can ask questions or represent their views. Additionally, in accordance with the AIM rules, specifically Rule 26, the Company has disclosed fully all relevant information so as to ensure that it is fully compliant.

The Company maintains a website (www.deo-petroleum.com) where the Group's statutory financial statements can be accessed. The following information can also be found there:

- Copies of regulatory announcements
- Announcements made to relevant industry media
- Directors' biographies
- Information relating to the Group's services
- Details of the Group's investments.

All queries raised by shareholders are dealt with by the Chief Financial Officer, Mr G Goodwin.

Accountability and audit

The Board believes that the Annual Report and financial statements play an important part in presenting shareholders with an assessment of the Group's position and prospects, and in particular the Chairman's Statement, which contains a detailed consideration of the Group's financial position and prospects.

Internal control

The Board has decided that at this stage in the Group's development the creation of an internal audit function is not warranted. In reaching this decision the Board has had regard to the internal controls that have been implemented across the Group. These are:

- the establishment of a Board with an appropriate balance of Executive and Non-Executive Directors, which has overall responsibility for decision making across the Group
- the preparation and approval of an annual budget in advance of each financial year and monitoring performance against this at an appropriate level of detail on a timely basis
- establishing clear lines of reporting, responsibility and delegation throughout the Group and documenting this in a clearly defined organisational chart
- ensuring that clearly defined control procedures covering expenditure and authority levels are in place
- undertaking a risk assessment of the Group's activities and monitoring the risks identified. There is an ongoing process for identifying, evaluating and managing risks faced by the Company and the Group. These processes were in place during the year.

Corporate Social Responsibility

The Group acquits itself of its commitment to Corporate Social Responsibility through the implementation of policies across the following areas:

- Equal opportunities across the Group; and
- Health and safety.

Going concern

As detailed in the Chairman's Statement, the Group raised £14.8m (net of expenses) via an institutional share placing in November 2010 to finance the acquisition of its interest in the Perth Assets for £10.5m. Management are currently working with co-venturers to produce a FDP for submission to DECC by the required deadline of 30 September 2011. Once the commitments under the FDP have been agreed with DECC, the Directors expect that the Group will be required to raise its share of the development costs of the Perth Assets from the debt and equity markets at around the end of 2011/start of 2012 or by farm-out arrangements with other oil companies. Whilst we are confident, based on current investment assumptions, that we will be in a position to present an attractive

investment to equity investors and lending banks, we do face some risk that the capital markets do not offer the optimum funding package at the time when we need it.

The Company and the Group do not have any formal commitments to incur any expenditure under this plan at the date of this report and the Group's projections identify that the Group has sufficient cash resources to satisfy its known obligations through the coming year. Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Auditors

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

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

During the year under review, HW Fisher & Company resigned as auditors to the Company and Deloitte LLP were appointed in their place.

The auditors, Deloitte LLP, have indicated their willingness to continue in office, and a resolution proposing that they be reappointed will be proposed at the Annual General Meeting.

By order of the Board
David L Marshall
Director
2 June 2011

Directors' Responsibility Statement for the year ended 31 December 2010

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company's financial statements under IFRss as adopted by the European Union. 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 Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group'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 corporate and financial information included on the Company's website and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Director's Responsibility Statement

We confirm to the best of our knowledge:

- 1.** the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- 2.** the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By Order of the Board
David L Marshall
Director
2 June 2011

Independent Auditor's Report to the members of DEO Petroleum plc for the year ended 31 December 2010

We have audited the financial statements of DEO Petroleum plc for the year ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

As explained in note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

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.

Graham Hollis ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Aberdeen, United Kingdom
2 June 2011

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Administrative expenses		(797,313)	(80,081)
Operating loss	4	(797,313)	(80,081)
Gain on sale of listed investment	7	15,500	-
Investment revenue	8	531	4
Loss on ordinary activities before taxation		(781,282)	(80,077)
Income tax	9	-	-
Loss for the year		(781,282)	(80,077)
Other comprehensive income:			
Net gain / (loss) on available for sale investments		2,484	(1,074)
Total comprehensive loss for the year		(778,798)	(81,151)
Loss per share (pence)			
- Basic	10	(5.96p)	(67.20p)
- Diluted	10	(5.96p)	(67.20p)

The Consolidated Statement of Comprehensive Income has been prepared on the basis that all activities relate to continuing operations.

Consolidated Statement of Changes in Equity as at 31 December 2010

	Share Capital £	Share Premium £	Share Based Payments £	Retained Deficit £	Total £
At 1 January 2009	1,789,545	2,966,830	-	(4,731,412)	24,963
Issue of ordinary shares	30,769	169,231	-	-	200,000
Costs of issue	-	(35,600)	-	-	(35,600)
Total comprehensive loss for the year	-	-	-	(81,151)	(81,151)
As at 31 December 2009	1,820,314	3,100,461	-	(4,812,563)	108,212
Issue of ordinary shares	414,566	16,772,560	-	-	17,187,126
Costs of issue	-	(1,344,067)	-	-	(1,344,067)
Credit to equity for equity settled share based payments	-	-	48,547	-	48,547
Total comprehensive loss for the year	-	-	-	(778,798)	(778,798)
As at 31 December 2010	2,234,880	18,528,954	48,547	(5,591,361)	15,221,020

Consolidated Balance Sheet as at 31 December 2010

	Note	As at 31 December 2010 £	As at 31 December 2009 £
ASSETS			
Non-current assets			
Intangible assets	11	10,519,750	-
Property, plant and equipment	12	4,158	-
Investments	13	3,479	995
		10,527,387	995
Current assets			
Trade and other receivables	14	101,201	9,513
Investments	13	1,500,000	-
Cash and cash equivalents		3,375,825	117,287
		4,977,026	126,800
LIABILITIES			
Current liabilities			
Trade and other payables	15	(283,393)	(19,583)
		4,693,633	107,217
NET ASSETS		15,221,020	108,212
EQUITY			
Attributable to the equity shareholders of the Company			
Share capital	16	2,234,880	1,820,314
Share premium	17	18,528,954	3,100,461
Share based payment reserve	18	48,547	-
Retained deficit	19	(5,591,361)	(4,812,563)
TOTAL EQUITY		15,221,020	108,212

The financial statements were approved by the Board of Directors on 2 June 2011 and signed on its behalf by:

David L Marshall
Director

Consolidated Cashflow Statement for year ended 31 December 2010

	Notes	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Cash flows from operating activities			
Net cash outflow from operating activities	21	(575,256)	(66,651)
Cash flows from investing activities			
Purchase of plant and equipment		(5,545)	-
Purchase of exploration licence		(10,500,000)	-
Purchase of software		(19,750)	-
Sale of investments		15,500	-
Interest received		531	4
Purchase of short term investment		(1,500,000)	-
Net cash (used in) / from investing activities		(12,009,264)	4
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		17,187,126	200,000
Costs associated with issuance of ordinary shares		(1,344,068)	(35,600)
Net cash from financing activities		15,843,058	164,400
Net increase in cash and cash equivalents		3,258,538	97,753
Cash and cash equivalents at start of the year		117,287	19,534
Cash and cash equivalents at end of year	21	3,375,825	117,287

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

1. ACCOUNTING POLICIES

1.1 *Basis of preparation*

DEO Petroleum plc is an AIM-quoted company and is incorporated in the United Kingdom under the Companies Act 2006. The Company's registered office address is 5 Old Bailey, London, EC4M 7BA.

The Group's financial statements have been prepared in compliance with International Financial Reporting Standards (IFRSs), IFRIC interpretations and the Companies Act 2006 applicable to Companies reporting under IFRS. The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. The Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

The financial statements have been prepared on the historical cost basis, except for the revaluation of the Group's financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

1.2 *Going concern*

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' Report on page 20.

1.3 *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. 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, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. A separate profit and loss for the parent company, DEO Petroleum plc, has been omitted under the provisions of s408 of the Companies Act 2006.

1.4 *Financial instruments*

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

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

Cash and cash equivalents and short term deposits

Cash and cash equivalents comprise cash in hand, cash at bank and short term deposits with banks and similar financial institutions.

1. ACCOUNTING POLICIES (CONTINUED)

1.4 Financial instruments (continued)

Trade and other receivables

Trade and other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Available for sale financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are classified as AFS financial assets and stated at fair value (because the Directors consider that fair value can be reliably measured). Fair value is determined in the manner described in note 13. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in retained earnings with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss.

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

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade and other payables

Trade and other payables are non interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

1.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided on all property, plant and equipment categories at rates calculated to write off the cost, less estimated residual value on a reducing balance basis over their expected useful economic life. The depreciation rates are as follows:

Fixtures and fittings	25% reducing balance
Office equipment	25% reducing balance

1.6 Intangible assets

Intangible assets – Exploration and Evaluation assets

Capitalisation

Certain costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the income statement. All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities) and appraisal are accumulated and capitalised as intangible exploration and evaluation (E&E) assets.

Notes to the Consolidated Financial Statements (continued) for the year ended 31 December 2010

1. ACCOUNTING POLICIES (CONTINUED)

1.6 *Intangible assets (continued)*

E&E costs are not amortised prior to the conclusion of appraisal activities. At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered, then, following development sanction, the carrying value of the relevant E&E asset will be reclassified as a development and production asset within property, plant and equipment, but only after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. If after completion of appraisal activities in an area, it is not possible to determine technical feasibility and commercial viability or if the legal right to explore expires or if the Company decides not to continue exploration and evaluation activity, then the costs of such unsuccessful exploration and evaluation is written off to the income statement in the period the relevant events occur.

Impairment

If and when facts and circumstances indicate that the carrying value of an E&E asset may exceed its recoverable amount, including consideration of those indicators set out in IFRS 6, an impairment review is performed.

For E&E assets, where there are such indicators, an impairment test is carried out by comparing the carrying value against the expected recoverable amount of the asset, generally determined as the higher of its fair value less costs to sell and its value in use. The cash generating unit applied for impairment test purposes is generally the field, however a number of field interests may be grouped as a single cash generating unit where the cash flows of each field are interdependent.

1.7 *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. Details regarding the determination of the fair value of equity-settled share based transactions are set out in note 20.

At each balance sheet date, the Group revises its estimates of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions.

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of comprehensive income over the vesting period on a straight line basis. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each year end date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the change in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of comprehensive income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the Statement of comprehensive income is charged with the fair value of goods and services received. Equity-settled share-based payments are measured at fair value at the date of grant except if the value of the

1. ACCOUNTING POLICIES (CONTINUED)

1.8 *New standards and interpretations*

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements:

		Effective date (period beginning on or after)
IFRS 2	Share-based Payment	1 January 2010
IFRS 8	Operating Segments	1 January 2010
IAS 1	Presentation of Financial Statements	1 January 2010
IAS 7	Statement of Cash Flows	1 January 2010
IAS 36	Impairment of Assets	1 January 2010
IAS 39	Financial Instruments: Recognition and Measurement	1 January 2010

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

		Effective date (period beginning on or after)
IFRS 7	Financial Instruments: Disclosures	1 January 2011
IFRS 9	Financial Instruments — Classification and Measurement	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurements	1 January 2013
IAS 1	Presentation of Financial Statements	1 January 2011
IAS 12	Income Taxes	1 January 2012
IAS 24	Related Party Disclosures	1 January 2011
IAS 32	Financial Instruments: Presentation	1 February 2010
IAS 34	Interim Financial Reporting	1 January 2011

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

1.9 *Taxation*

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realised or the deferred liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Consolidated Financial Statements (continued) for the year ended 31 December 2010

2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In addition to the specific uncertainties described in Directors' Report on pages 14 to 16, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Going concern

The Group's business activities, together with the factors likely to affect future development, performance and position are set out in the Business Review on pages 9 to 13. The financial position of the Group, its cash flow and liquidity position are described in the Directors' Report on page 20. In addition, note 22 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to liquidity risk.

Recoverability of exploration and evaluation assets

Determining whether an exploration and evaluation asset is impaired requires an assessment of whether there are any indicators of impairment, including by reference to the specific impairment indicators prescribed in IFRS 6 *Exploration for and Evaluation of Mineral Resources*. If there is any indication of potential impairment, an impairment test is required based on value in use of the asset. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of exploration and evaluation assets at the balance sheet date was £10.5 million (2009: £nil) and no impairment was identified or recognised in any of the years reported.

Share-based payments

The Group has an equity-settled share option scheme available to certain Directors and employees. In accordance with IFRS 2 *Share-based payment*, in determining the fair value of options granted, the Group has applied the Black-Scholes valuation model. As a result, the Group makes assumptions for expected volatility, expected life, risk free rate and expected dividend yield. The fair value of options granted at 31 December 2010 and the assumptions applied in the calculation of this fair value is shown in note 20.

3. SEGMENTAL REPORTING

The Group's business consists of two core areas, oil and gas exploration and investment in the shares of listed and quoted entities.

Segment Results	2010		
	Oil and gas exploration £	Investment activity £	Total £
Administration expenses	(797,313)	-	(797,313)
Operating loss	(797,313)	-	(797,313)
Gain on sale of listed investments	-	15,500	15,500
Investment revenue	531	-	531
(Loss) / profit on ordinary activities before tax	(796,782)	15,500	(781,282)
Tax	-	-	-
(Loss)/profit after tax	(796,782)	15,500	(781,282)

	2009		
	Oil and gas exploration £	Investment activity £	Total £
Administration expenses	-	(80,081)	(80,081)
Operating loss	-	(80,081)	(80,081)
Investment revenue	-	4	4
Loss on ordinary activities before tax	-	(80,077)	(80,077)
Income tax -	-	-	-
Loss after tax	-	(80,077)	(80,077)

All of the Group's trading activities take place in the United Kingdom.

Segment Assets

	2010 £	2009 £
Oil and gas exploration	15,500,934	-
Investment activity	3,479	127,795
Consolidated total assets	15,504,413	127,795

Notes to the Consolidated Financial Statements (continued) for the year ended 31 December 2010

4. LOSS FOR THE YEAR

Loss for the year is stated after charging

	2010	2009
	£	£
Depreciation of property, plant and equipment	1,387	-

5. AUDITOR'S REMUNERATION

	2010	2009
	£	£
Fees payable to the Company's Auditors for the audit of the Company's Annual accounts	9,000	6,000
Fees paid to the Company's auditors for other services to the Group		
- Tax services	7,000	1,500
- Corporate finance services	50,000	-
	66,000	7,500

The corporate finance fees paid to the Company's auditor in 2010 relate to the institutional share placing and the Company's re-admission to AIM.

6. STAFF COSTS

	2010	2009
	£	£
The average monthly number of employees (including executive Directors) was:		
Technical and operations	2	-
Administration	1	1
	3	1

Their aggregate remuneration comprised:

Directors' remuneration

Gross wages	196,555	21,715
Compensation for loss of office	10,000	-
Personal pension contributions	4,241	-
Social security costs	20,414	138
Share based payment charge	32,137	-

Staff costs (excluding Directors)

Gross wages	22,208	-
Personal pension contributions	2,220	-
Social security costs	2,720	-
	290,495	21,853

6. STAFF COSTS (CONTINUED)

During the year, compensation for loss of office of £10,000 was paid to Nicolas D A Greenstone who resigned as a Director on 29 September 2010. The number of Directors for which personal pension contributions are made is three (2009 : Nil).

7. OTHER GAINS AND LOSSES

	2010 £	2009 £
Gain on disposal of listed investments	15,500	-

8. INVESTMENT REVENUE

	2010 £	2009 £
Bank interest	531	4

9. TAXATION

	2010 £'000	2009 £'000
Tax charge	-	-
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(781,282)	(80,077)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax of 28% (2009 : 28%)	(218,759)	(22,422)
Effects of:		
Expenses not deductible for tax purposes	23,753	-
Capital allowances in excess of depreciation	388	-
Movement in short term timing differences	1,810	-
Tax losses not recognised	192,808	-
Other tax adjustments	-	22,422
Tax charge	-	-

As at 31 December 2010, the Group had carried forward tax losses of £719,249 (2009: £455,484). The related deferred tax asset has not been recognised due to the uncertainty over the availability of future trading profits to offset these losses against.

Notes to the Consolidated Financial Statements (continued) for the year ended 31 December 2010

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss on ordinary activities after taxation of £781,282 (2009: £80,077) and on the weighted average number of shares of 13,100,198 (2009: 119,156) ordinary shares in issue during the year.

There was no dilutive effect from the share options outstanding during the year.

The loss per share for the year ended 31 December 2009 has been restated to assume that the share reorganisation detailed in note 16 had occurred at the start of that year.

11. INTANGIBLE ASSETS

	Exploration licence £	Other intangibles £	Total £
Cost			
Additions	10,500,000	19,750	10,519,750
As at 31 December 2010	10,500,000	19,750	10,519,750
Accumulated amortisation and impairment			
Amortisation charge for the year	-	-	-
As at 31 December 2010	-	-	-
Net book value			
As at 31 December 2010	10,500,000	19,750	10,519,750

The exploration licence relates to a 42.08 per cent working interest in the Perth Assets, in P588, Blocks 15/21c (All) and 15/21b (Residual Area) and P218, Block 15/21a (Residual Area) acquired on 30 November 2010.

12. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £	Office equipment £	Total £
Cost			
Additions	3,000	2,545	5,545
As at 31 December 2010	3,000	2,545	5,545
Depreciation			
Depreciation charge for the year	750	637	1,387
As at 31 December 2010	750	637	1,387
Net book value			
As at 31 December 2010	2,250	1,908	4,158

13. INVESTMENTS

	2010 £	Current 2009 £	2010 £	Non-current 2009 £
Available for sale investments carried at fair value				
Shares	-	-	3,479	995
Loans and receivables				
Bank deposits	1,500,000	-	-	-

The shares included above represent investments in listed equity securities that present the Group with opportunity for return through dividend income and trading gains. The fair value of these securities are determined with reference to quoted market prices, and as such are classified as Level 1 in the fair value hierarchy per IFRS 7:27.

The Group holds £1.5m in a bank deposit account with a maturity date of 7 September 2011.

14. TRADE AND OTHER RECEIVABLES

	2010 £	2009 £
Other receivables	78,112	5,521
Prepayments and accrued income	23,089	3,992
	101,201	9,513

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. No amounts are past due at the reporting date and accordingly no allowance for doubtful receivables has been recognised.

Notes to the Consolidated Financial Statements (continued) for the year ended 31 December 2010

15. TRADE AND OTHER PAYABLES

	2010 £	2009 £
Trade creditors	203,999	5,655
Accruals and deferred income	56,054	13,928
Amounts due to related parties	23,340	-
	283,393	19,583

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

16. SHARE CAPITAL

	2010 £	2009 £
Issued and fully paid		
330,681,200 Ordinary shares of 0.01p each	-	33,068
43,109,931 Ordinary shares of 1p each	431,100	-
1,653,406 Deferred Ordinary shares of 1p each	16,534	-
2,667,229 Deferred Ordinary shares of 24p each	640,135	640,135
22,988,200 Deferred Ordinary shares of 4.99p each	1,147,111	1,147,111
	2,234,880	1,820,314

The conditions attached to the deferred Ordinary shares are as follows:

- No entitlement to receive notice of, attend and vote at general meetings
- No entitlement to receive any dividends
- The right to repayment of the amounts paid up/ credited as paid up on them on a winding up or return of capital or otherwise on a pro rata basis after paying to the holders of the Ordinary shares £10,000 in respect of each such share and then to participate in any surplus assets on a pro rata basis after payment to the holders of Ordinary shares
- All classes of deferred shares should rank equally.

On 28 May 2010, a capital reorganisation took place whereby the 330,681,200 Ordinary shares of 0.01p each in issue were consolidated into 1,653,406 ordinary shares of 1p each and 1,653,406 deferred shares of 1p each.

On 28 May 2010, 4,400,970 new Ordinary shares of 1p each were issued for cash at 13p each. The total proceeds amounted to £572,126.

On 20 August 2010, 1,500,000 new ordinary shares of 1p each were issued, by way of a private placing, for cash at 41p each. The total proceeds amounted to £615,000.

On 8 November 2010, 35,555,555 new ordinary shares of 1p each were issued, by way of market share placing, for cash at 45p each. The total proceeds amounted to £16,000,000.

17. SHARE PREMIUM ACCOUNT

	£
Balance at 1 January 2010	3,100,461
Premium arising on issue of equity shares	16,772,560
Expenses of issue of equity shares	(1,344,067)
Balance at 31 December 2010	18,528,954

18. SHARE BASED PAYMENT RESERVE

	£
Balance at 1 January 2010	-
Credit to equity (note 20)	48,547
Balance at 31 December 2010	48,547

19. RETAINED DEFICIT

	£
Balance at 1 January 2009	(4,731,412)
Comprehensive loss for the year	(81,151)
As at 31 December 2009	(4,812,563)
Comprehensive loss for the year	(778,798)
As at 31 December 2010	(5,591,361)

Notes to the Consolidated Financial Statements (continued) for the year ended 31 December 2010

20. SHARE BASED PAYMENTS

The Company has granted share options to Directors, employees, strategic consultants and advisors to the Company to provide incentives for long-term performance and retention.

The options are exercisable at a price of 45p per share.

The share options granted are not subject to any performance criteria apart from, in respect of Directors and employees, their continued service with and employment by the Company. Options are forfeited if the Director or employee leaves the Company before the options vest.

The share options operate on a wholly equity-settled principle – the Company has no legal or constructive obligation to repurchase or settle the options in cash.

The share options were granted on 30 November 2010 and the vesting terms are as follows:

Vesting period	Number
Upon FDP approval for the Perth licence by DECC	2,443,022
One year from FDP approval for the Perth licence	610,664
Two years from FDP approval for the Perth licence	610,664

The aggregate of the estimated fair values of the options granted is £48,547.

The maximum term of options granted is ten years and in the normal course of granting, seven years.

The share option table below sets out the options granted and outstanding at 31 December 2010.

	Weighted average share price (pence)	Number of share options
Outstanding at the beginning of the year	-	-
Granted during the year	45	3,664,350
Outstanding at the end of the year	45	3,664,350

The Black-Scholes valuation model is used to determine the fair value of the share options issued by the Company. Given the limited trading history of the Company, which was admitted on AIM in June 2010, a representative sample of companies from the oil and gas sector with operating activities was used in order to determine expected share price volatility.

20. SHARE BASED PAYMENTS (CONTINUED)

The Company used the Black-Scholes model to determine the value of the options and the inputs were as follows:

Share price at grant (pence)	45
Fair value price at grant (pence)	16
Expected volatility (%)	72
Expected life (years)	3.5 years
Risk free rate (%)	1.45
Bid price discount (%)	20
Expected dividends (pence)	-

21. NOTES TO THE CASHFLOW STATEMENT

	2010	2009
	£	£
Loss for the year	(781,282)	(80,077)
Adjustments for:		
Depreciation of property, plant and equipment	1,387	-
Share based payment expense	48,547	-
Gain on sale of listed investments	(15,500)	-
Investment revenue	(531)	(4)
Operating cash flow before movements in working capital	(747,379)	(80,081)
(Increase) / decrease in receivables	(91,688)	3,619
Increase in payables	263,811	9,811
Net cash outflow from operating activities	(575,256)	(66,651)

CASH AND CASH EQUIVALENTS

	2010	2009
	£	£
Cash and bank balances	3,375,825	117,287

Cash and cash equivalents comprise cash and short term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

Notes to the Consolidated Financial Statements (continued) for the year ended 31 December 2010

22. FINANCIAL INSTRUMENTS

The Group's financial assets comprise cash and cash equivalents, investments and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to provide finance for operations. The Group has not entered into derivative transactions and does not trade in financial instruments for speculative purposes. The main future risks arising from the Group's financial instruments are interest rate risk and liquidity risk. There is no currency risk as the Group trades in Sterling.

Operations to date have been financed through a placing of shares. It is the Board's policy to keep borrowings to a minimum. The Group has no borrowings.

Interest rate risk

The Group finances its operations through the use of cash deposits at variable rates of interest for a variety of short-term periods, depending on cash requirements. These rates are reviewed regularly and the best rate obtained in the context of the Group's needs. No interest rate sensitivity analysis has been provided as this is not deemed to have a material effect on balances held at 31 December 2010.

Short-term receivables and payables are not exposed to interest rate risk.

Liquidity risk

The Group's policy throughout the year has been to ensure that it has adequate liquidity by careful management of its working capital. Amount held at bank amounted to £4,875,825 (2009: £117,287), including short term deposits of £1.5 million classified as investments (note 13).

Capital

In managing its capital, the Group's primary objective is to maintain a sufficient funding base to enable the Group to meet its working capital and business objectives. 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 difference between the book and fair value of financial assets and liabilities as at 31 December 2010 was £nil (2009: nil).

23. RELATED PARTY TRANSACTIONS

During the year the Company was charged £12,000 (2009: £2,250) for accountancy services by Adler Shine LLP, a firm in which R Patel, a Director of the Company, is a partner. A balance of £5,340 was outstanding at 31 December 2010 (2009: nil).

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in note 36.

The remuneration of the Directors, who are key management personnel of the Group, is set out in note 6.

23. RELATED PARTY TRANSACTIONS (CONTINUED)

During the year the Company was charged £23,750 (2009: £nil) for professional services by GRG Associates, a firm in which G. Goodwin, a Director of the Company, is a partner. A balance of £18,000 was outstanding at 31 December 2010 (2009: £nil).

During the year the Company sold investments in the share capital of Niche Group plc, a company in which R. Patel is a director, realising a gain on sale of £15,000.

In August 2010, the Company acquired various assets from DEO Resources Limited for a purchase price of £24,750. The issued share capital of DEO Resources Limited is held equally by R. Mays, D. Marshall, A. Jones and M. Coulthard. R. Mays and D. Marshall are Directors of DEO Petroleum plc.

24. POST BALANCE SHEET EVENTS

In May 2011, the Company announced a new strategic relationship with Parkmead Group, led by Tom Cross (ex-CEO of Dana Petroleum plc). The exploration and exploitation skills of both companies will combine well to target new North Sea opportunities, including joint participation in the forthcoming UK 27th licencing round.

Company Balance Sheet as at 31 December 2010

	Note	As at 31 December 2010 £	As at 31 December 2009 £
ASSETS			
Non-current assets			
Investment in subsidiary	26	1	-
Intangible assets	27	19,750	-
Property, plant and equipment	28	4,158	-
Investments	29	3,479	995
		27,388	995
Current assets			
Trade and other receivables	30	10,601,199	9,513
Investments	29	1,500,000	-
Cash and cash equivalents		3,375,825	117,287
		15,477,024	126,800
LIABILITIES			
Current liabilities			
Trade and other payables	31	(283,392)	(19,583)
		15,193,632	107,217
		15,221,020	108,212
EQUITY			
Attributable to the equity shareholders of the Company			
Share capital	32	2,234,880	1,820,314
Share premium	32	18,528,954	3,100,461
Share based payment reserve	34	48,547	-
Retained deficit	33	(5,591,361)	(4,812,563)
		15,221,020	108,212

The financial statements were approved by the Board of Directors on 2 June 2011 and signed on its behalf by:

David L Marshall

Director of DEO Petroleum plc
(Company Number 03882653)

Company Statement of Changes in Equity as at 31 December 2010

	Share Capital	Share Premium Account	Share Based Payments	Retained Deficit	Total
	£	£	£	£	£
At 1 January 2009	1,789,545	2,966,830	-	(4,731,412)	24,963
Issue of ordinary shares	30,769	169,231	-	-	200,000
Costs of issue	-	(35,600)	-	-	(35,600)
Total comprehensive loss for the year	-	-	-	(81,151)	(81,151)
As at 31 December 2009	1,820,314	3,100,461	-	(4,812,563)	108,212
Issue of ordinary shares	414,566	16,772,560	-	-	17,187,126
Costs of issue	-	(1,344,067)	-	-	(1,344,067)
Credit to equity for equity settled share based payments	-	-	48,547	-	48,547
Total comprehensive loss for the year	-	-	-	(778,798)	(778,798)
As at 31 December 2010	2,234,880	18,528,954	48,547	(5,591,361)	15,221,020

Company Statement of Cashflows for the year ended 31 December 2010

	Notes	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Cash flows from operating activities			
Net cash outflow from operating activities	35	(11,075,259)	(66,651)
Cash flows from investing activities			
Purchase of plant and equipment		(5,545)	-
Purchase of software		(19,750)	-
Sale of investments		15,500	-
Interest received		531	4
Purchase of short term investment		(1,500,000)	-
Net cash (used in) / from investing activities		(1,509,264)	4
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		17,187,126	200,000
Costs associated with issuance of ordinary shares		(1,344,068)	(35,600)
Net cash from financing activities		15,843,058	164,400
Net increase in cash and cash equivalents		3,258,538	97,753
Cash and cash equivalents at start of the year		117,287	19,534
Cash and cash equivalent at end of year	35	3,375,825	117,287

Notes to the Company Financial Statements for the year ended 31 December 2010

25. 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 the International Financial Reporting Standards adopted by the European Union.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 1 to the consolidated financial statements.

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

26. SUBSIDIARIES

					Shares in Group undertaking £
Cost or valuation					
Additions					1
Cost and net book value as at 31 December 2010					1
Name of undertaking	Description of shares held	Principal activity	Country of incorporation	Percentage of shares held	Percentage of total voting right held
DEO Petroleum U.K. Limited	Ordinary shares	Oil and gas Exploration	England and Wales	100%	100%

Notes to the Company Financial Statements (continued)
for the year ended 31 December 2010

27. INTANGIBLE ASSETS

	Software £	Total £
Cost		
Additions	19,750	19,750
As at 31 December 2010	19,750	19,750
Accumulated amortisation and impairment		
Amortisation charge for the period	-	-
As at 31 December 2010	-	-
Net book value		
As at 31 December 2010	19,750	19,750

28. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £	Office equipment £	Total
Cost			
Additions	3,000	2,545	5,545
As at 31 December 2010	3,000	2,545	5,545
Depreciation			
Depreciation charge for the year	750	637	1,387
As at 31 December 2010	750	637	1,387
Net book value			
As at 31 December 2010	2,250	1,908	4,158

29. INVESTMENTS

	2010 £	Current 2009 £	2010 £	Non-current 2009 £
Available for sale investments carried at fair value				
Shares	-	-	3,479	995
Loans and receivables				
Bank deposits	1,500,000	-	-	-

The shares included above represent investments in listed equity securities that present the Group with opportunity for return through divided income and trading gains.

The Company has £1.5m in a bank deposit account with a maturity date of 7 September 2011.

30. TRADE AND OTHER RECEIVABLES

	2010 £	2009 £
Loans to other Group entities	10,500,000	-
Other debtors	78,110	5,521
Prepayments and accrued income	23,089	3,992
	10,601,199	9,513

31. TRADE AND OTHER PAYABLES

	2010 £	2009 £
Trade creditors	203,999	5,655
Accruals and deferred income	56,053	13,928
Amounts due to related parties	23,340	-
	283,392	19,583

Notes to the Company Financial Statements (continued) for the year ended 31 December 2010

32. SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

The movements on these items are disclosed in notes 16 and 17 to the consolidated financial statements.

33. RETAINED DEFICIT

The movements in retained deficit are disclosed in note 19 to the consolidated financial statements.

34. SHARE BASED PAYMENTS

Share based payment disclosures are included in note 20 to the consolidated financial statements.

35. NOTES TO THE CASH FLOW STATEMENTS

	2010	2009
	£	£
Loss for the year	(781,282)	(80,077)
Adjustments for:		
Depreciation of property, plant and equipment	1,387	-
Share based payment expense	48,547	-
Gain on sale of listed investments	(15,500)	-
Investment revenue	(531)	(4)
Operating cash flow before movements in working capital	(747,379)	(80,081)
(Increase)/decrease in receivables	(10,591,688)	3,619
Increase in payables	263,811	9,811
Net cash outflow from operating activities	(11,075,256)	(66,651)

CASH AND CASH EQUIVALENTS

	2010	2009
	£	£
Cash and bank balances	3,375,825	117,287

Cash and cash equivalents comprise cash and short term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

36. RELATED PARTIES

Disclosure of related party transactions are provided in note 23 to the consolidated financial statements, except for as noted below:

	2010	2009
	£	£
Loan to DEO Petroleum Limited	10,500,000	-

Amounts repayable from DEO Petroleum Limited have no fixed repayment terms and do not bear any interest.

37. POST BALANCE SHEET EVENTS

See note 24 of the consolidated financial statements.

Notes



DEO Petroleum plc.

39 Queens Road
Aberdeen
AB15 4ZN

General Office phone number
+44 (0) 1224 548777

Heather Ruth, Communications Advisor
hruth@deo-petroleum.com

deo-petroleum.com
