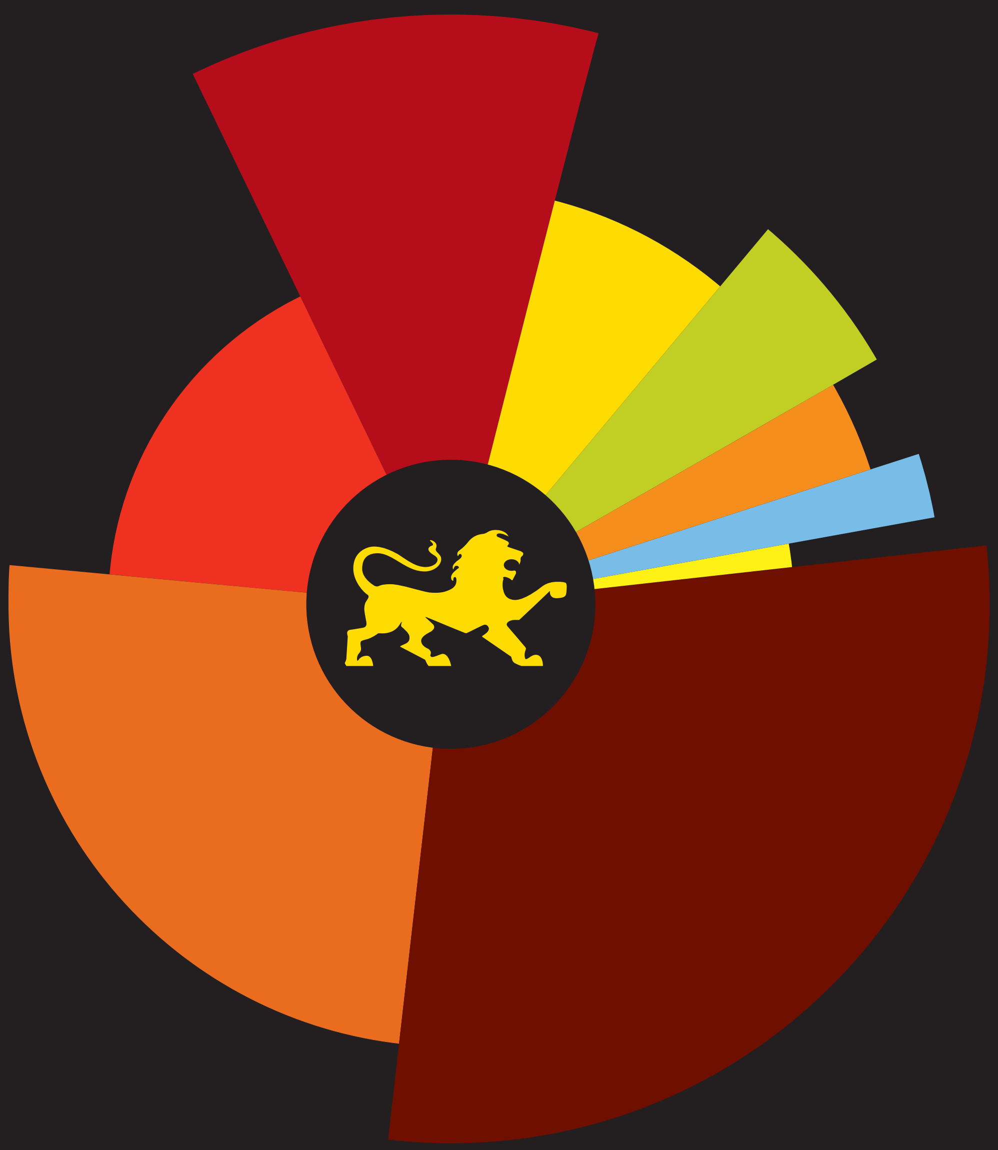


San Leon Energy plc
Annual report and accounts 2011

This booklet explains our strategy for delivering value for our stakeholders →

San Leon Energy is a young, dynamic and entrepreneurial company that demonstrates a practical commitment to efficient, ethical and early production. Our flair is founded on experience and is validated by major institutional investors and the Governments and communities we partner with.

Passionate

about delivering value for our stakeholders

Commitment

to safety across all our operations

Innovative

in our commercial
and technical activities

Responsive

to the needs of society
and to sustainability

Energy

speed and nimbleness
in seizing opportunities

1.
We focus on strong management, financial discipline and technical expertise

San Leon Energy is a dynamic company with ambitious growth plans and a strong sense of responsibility to our stakeholders. We aim to combine entrepreneurial flair with the discipline and governance of a public listed company. Our technical team, led by Dr John Buggenhagen, is internationally recognised.

Find out more on page 20

2.
We acquire and develop major conventional and shale assets across Europe and North Africa

Our rapid acquisition of three companies – Gold Point Energy, Island Oil & Gas and Realm Energy – has accelerated the development of our portfolio. San Leon Energy now has extensive assets, both conventional and unconventional, across the region. We are now Europe's leading shale gas company by acreage.

Find out more on page 03

3.
We aim to drill low-risk prospects in Poland for near-term production and cash flow

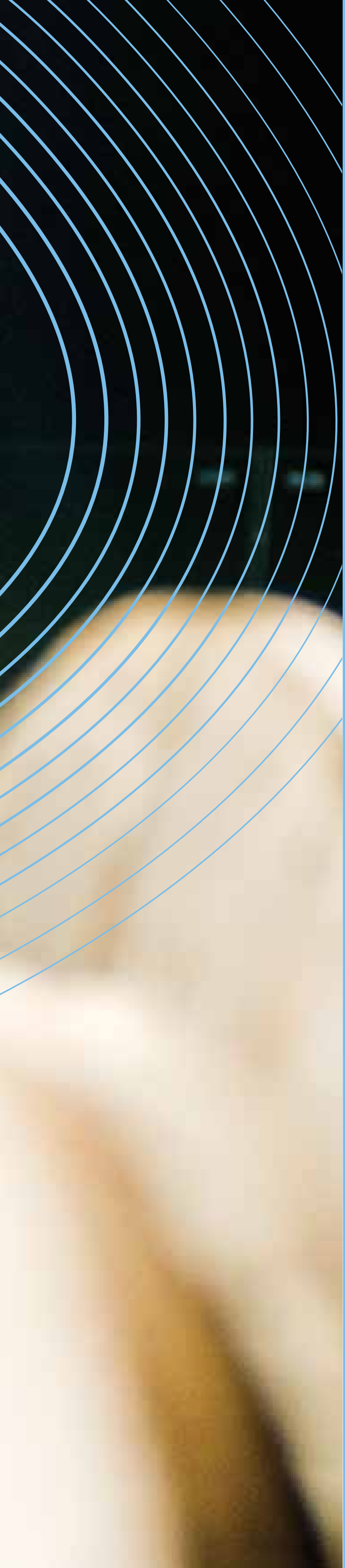
While exploration continues to be our main focus, cash flow is a vital element in our strategy. San Leon Energy will continue to pursue near-term production through drilling low-risk properties in the Polish Permian Basin.

Find out more on page 07

4.
We apply specialist oil and gas technology to develop our assets

We use proven technology – including our own considerable seismic capability – across our conventional and unconventional licences. This is key to our plan to realise the potential of our oil and gas assets across Europe and North Africa. Our particular focus is currently on Poland, Albania and Morocco.

Find out more on page 02



5.
We use the expertise and experience of our professional team to realise our potential

San Leon Energy has developed a dedicated in-house team of specialists who have been at the forefront of the industry for a number of years. They have considerable experience of successful drilling programmes, and have skills and expertise across both conventional and unconventional assets.

Find out more on page 20

Our growth story

Following our three corporate acquisitions, we are now focused on exploring and developing our portfolio of conventional and unconventional assets across Europe and North Africa.

2007

First licence

San Leon Energy was established in its current form in 2007 and included the Zag and Tarfaya Oil licences. In that year we acquired the unconventional Tarfaya oil shale acreage in Morocco.

2008

Listed on London's Alternative Investment Market

Market capitalisation of £100 million.

2009

Gold Point Energy acquisition

We grew our portfolio significantly with this, our first acquisition, which brought us major, high-potential shale gas concessions in Poland's Baltic Basin. We also gained a team of hugely talented petroleum geologists, led by Dr John Buggenhagen.

2010

Island Oil & Gas acquisition

The Island acquisition brought us conventional offshore assets in the Celtic Sea as well as a number of exciting assets along the Atlantic Margin off the west coast of Ireland. In addition, we increased our Moroccan onshore acreage as well as gaining the Foum Draa and Sidi Moussa licences offshore Morocco. In addition, this acquisition brought us the hugely valuable Duressi licence offshore Albania.

Talisman Energy

Joint venture agreement signed with Talisman Energy whereby Talisman carry San Leon Energy through the seismic and potential six-well programme in the Baltic Basin, Poland – an estimated investment of US$80 million.

Placing of shares

Raising £60 million to fund the exploration programme.

2011

Realm Energy acquisition

This purchase delivered a further 464,000 acres in our core areas of Poland's Baltic Basin, bringing us up to a total of 1.7 million acres. In addition, Realm brought us 2 million acres in Spain and there are applications pending for 2.5 million acres in France.

2012

Poland, Albania and Morocco

Current main focus is on Poland, Albania and Morocco.

Development strategy

- Realise cash flow through the drill bit
- Continue to introduce high value farm-in partnership to develop large assets
- Develop high potential assets in low-risk countries
- Create a robust portfolio of varying sized licences and prospects
- Continue to identify and sign high reward exploration licences

By focusing on our strategy we plan to
deliver superior value for stakeholders

Business review

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San Leon Energy is a young, dynamic company with ambitious growth plans and a strong sense of responsibility to our stakeholders.

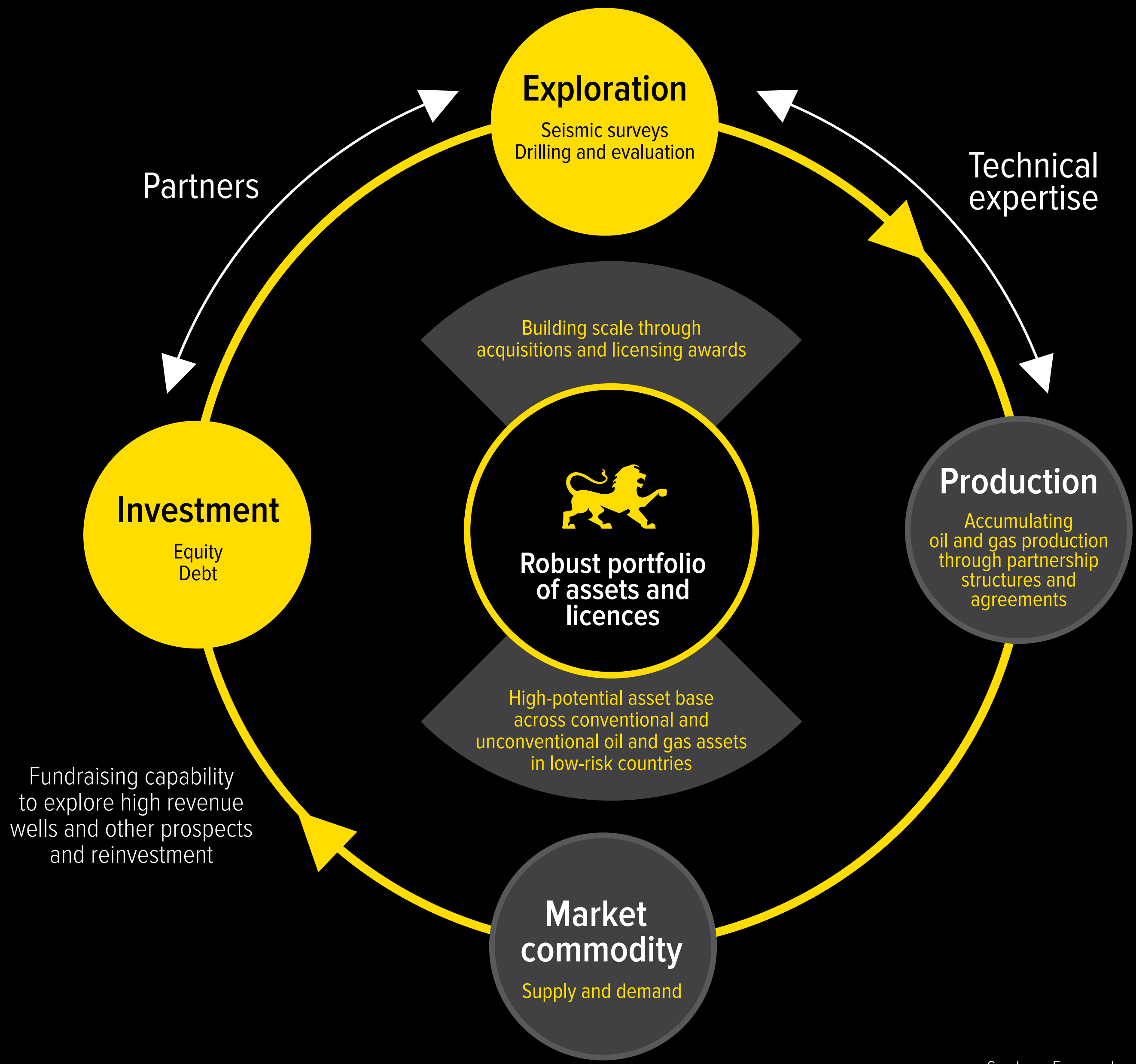
We aim to combine entrepreneurial flair with the discipline and governance of a public listed company.

We have made three acquisitions and built a balanced portfolio of assets across Europe and North Africa. We are now focusing on developing these assets using our considerable technical expertise across conventional and shale activities.

Our business model

This diagram shows how our business model works and indicates in yellow our current focus.

We have been investing in, and exploring, our balanced portfolio of assets, located in nine countries across Europe and North Africa. We're now Europe's leading shale gas company by acreage and have significant conventional assets as well. Our planned next phase is to work with partners to produce oil and gas and provide revenues to enable further growth and development.



An extensive and balanced portfolio of conventional and shale assets across Europe and North Africa

Germany
Total net area
15,588 acres

The Netherlands
2.5% net royalty
on Amstel Field

Ireland
Total net area
630,238 acres
4.5% NPI on Barryroe Field

France
Total net area
2,357,128 acres

Italy
Total net area
231,982 acres

Spain
Total net area
2,228,098 acres

Current main focus of activity

Morocco

Total net area
7,001,616 acres

Poland

Total net area
2,956,251 acres

Albania

Total net area
1,037,843 acres

Our Assets

Location	Area acres	Area km²	San Leon Energy interest	Area net acres
Poland	**3,820,126**	**15,459**		**2,956,251**
Gdansk W	220,937	894	40.00%	88,375
Braniewo S	257,731	1,043	40.00%	103,092
Szczawno	149,103	603	20.00%	29,821
Gniew	294,303	1,191	100.00%	294,303
Czersk	173,715	703	100.00%	173,715
Ilawa	184,341	746	50.00%	92,170
Wengrow	175,939	712	50.00%	87,970
Praburty Poludniowe	118,611	480	75.00%	88,958
Wieluń	219,430	888	75.00%	164,573
Oleśinica	286,642	1,160	75.00%	214,982
Nowa Sol	288,372	1,167	100.00%	288,372
Wschowa	266,380	1,078	100.00%	266,380
Gora	174,456	706	100.00%	174,456
Rawicz	183,352	742	100.00%	183,352
Praszka	296,032	1,198	100.00%	296,032
Szczecinek	242,163	980	50.00%	121,082
Nida	288,619	1,168	100.00%	288,619
Ireland	**981,009**	**3,970**		**630,238**
Slyne	183,105	741	50.00%	91,553
North Porcupine Connemara	153,700	622	74.00%*	113,738
South Porcupine	198,179	802	50.00%	99,089
Old Head of Kinsale	63,753	258	65.00%	41,440
Schull	164,078	664	62.50%	102,549
Seven Heads Gas Field	41,514	168	12.50%	5,189
Rockall	176,680	715	100.00%	176,680
Barryroe			net profit interest of 4.5%	
Morocco	**13,299,434**	**53,821**		**7,001,616**
Tarfaya Basin	3,319,614	13,434	52.50%	1,742,797
Zag Basin	5,355,392	21,673	52.50%	2,811,581
Tarfaya Oil Shale	1,482,632	6,000	75.00%	1,111,974
Foum Draa	1,257,766	5,090	42.50%	534,551
Sidi Moussa	1,884,030	7,624	42.50%	800,713
Albania	**1,037,843**	**4,200**		**1,037,843**
Durresi	1,037,843	4,200	100.00%	1,037,843
Spain	**2,228,098**	**9,017**		**2,228,098**
Geminis	118,463	479	100.00%	118,463
Libra	93,365	378	100.00%	93,365
Quimera*	249,655	1,010	100.00%	249,655
Pegaso*	254,232	1,029	100.00%	254,232
Cronos*	239,596	970	100.00%	239,596
Aquiles*	252,927	1,024	100.00%	252,927
Perseo*	253,913	1,028	100.00%	253,913
Prometeo*	254,566	1,030	100.00%	254,566
Atlas*	255,349	1,033	100.00%	255,349
Helios*	256,032	1,036	100.00%	256,032
Italy	**231,982**	**939**		**231,982**
Po Valley Sospiro	104,081	421	100.00%	104,081
Po Valley Sorbolo	73,390	297	100.00%	73,390
Sicily	54,511	221	100.00%	54,511
Germany	**15,588**	**63**		**15,588**
Aschen	15,588	63.08	100.00%	15,588
France	**2,357,128**	**9,539**		**2,357,128**
Champecenest**	12,849	52	100.00%	12,849
Courpalay**	324,064	1,311	100.00%	324,064
Dicy**	157,158	636	100.00%	157,158
Meaux**	203,953	825	100.00%	203,953
Montmort-Lucy**	81,016	328	100.00%	81,016
Pithiviers**	347,529	1,406	100.00%	347,529
Samois-sur-Seine**	13,343	54	100.00%	13,343
Sens**	191,425	775	100.00%	191,425
Sezanne**	214,890	870	100.00%	214,890
Blyes**	810,901	3,282	100.00%	810,901
The Netherlands				
Amstel			2.5% royalty	
Total Gross/Net	**23,971,208**	**97,008**		**16,458,744**

*Subject to Government approval **Pending Applications

Balanced portfolio of assets for development

€26m
Cash position

24m
Gross acres in the global portfolio (97,000km^2)

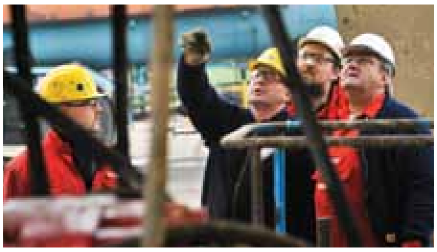
3
Key acquisitions

- → Attractive acreage position built through the acquisitions of Gold Point Energy (Poland); Island Oil and Gas (Albania, Morocco, Ireland); and Realm Energy (Poland, Spain, France)
- → Exceptional in-house technical team with local and regional experience, applying proven technology to underexplored acreage
- → Diverse portfolio of prospects from low-risk, short term, low-cost exploration to basin-scale unconventional opportunities and large offshore prospects in proven petroleum systems
- → Operating in highly import-dependent countries with attractive fiscal regimes and oil-linked gas prices
- → Long-standing partnerships with Talisman Energy & PGS, providing expertise and the ability to move assets forward along the value curve

A year of continued asset growth and development

10.94m
unconventional gas acreage held by San Leon Energy – now Europe's leading shale player by acreage

Establishment of NovaSeis, a cableless land-based seismic company to reduce the Company's seismic costs.



Creation of Advisory Committee made up of experienced industry professionals to work alongside management team when considering macro issues associated with the industry.

C$100m
acquisition of Realm Energy, significantly increasing the Company's acreage positions in Poland and across Europe

1,200km²
of 2D seismic carried out

Durressi Block has unrisked prospective recoverable resources of more than one billion barrels of oil equivalent across the proven petroleum systems.

Successful three-well Baltic Basin drilling programme

We are focused on strong management, financial discipline and technical expertise

We are now developing our assets using our considerable technical expertise across conventional and shale activities.

Oisin Fanning
Executive Chairman

2011 was another significant year for San Leon Energy. We have continued to add value to our existing diversified and high impact portfolio of assets. We have advanced our scientific knowledge by shooting and interpreting seismic and in the case of Poland, drilling vertical wells. We have also completed our largest acquisition to date, Realm Energy.

The acquisition of Realm Energy provided San Leon Energy with a unique opportunity to increase the Company’s exposure to the prospective upside that the Baltic Basin offers. The acquisition provided the Company with a further 500,000 acres in Poland (in the Baltic and Podlase basins), as well as applications in Spain of over two million acres, which have now been awarded to the Company, and in the case of France it has provided 2.35 million acres over which we remain cautiously optimistic. We also expect this deal to bring significant cost and operational synergies across the upcoming drilling programme whilst further enhancing the technical expertise in the Company.

The acquisition also:
- strengthens San Leon Energy’s focus and position as one of the leading shale players in Poland;
- materially increases San Leon Energy’s acreage in Poland’s Baltic Basin;
- leverages San Leon Energy’s in-country technical team to add material value to Realm’s assets;
- has the potential to add further shale acreage to the portfolio through any successful licence applications that Realm has made in Spain and France; and
- provides cost and operational synergies for upcoming seismic and drilling programmes.

Poland

Baltic Basin

Km^2 – 6,373

Acres – 1,574,680

Net Acres – 958,404

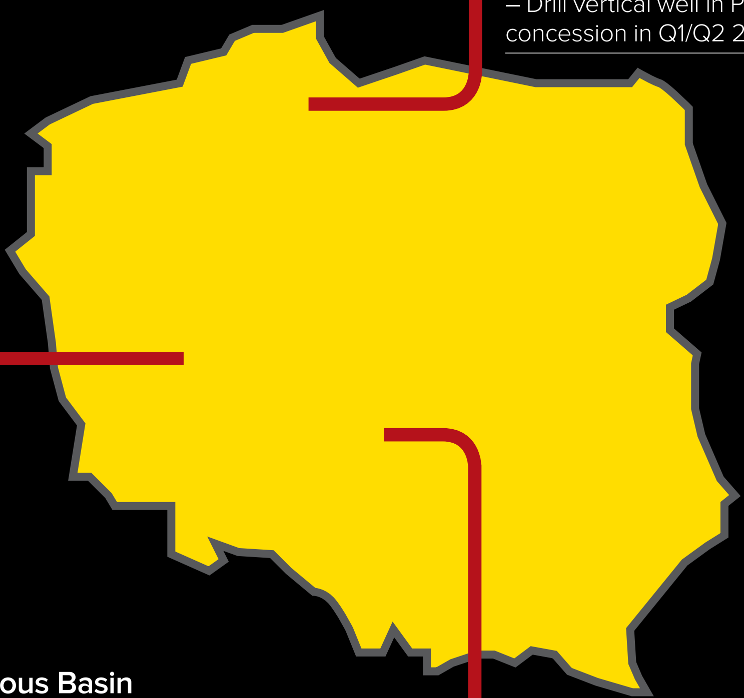
Partners – Talisman energy, LNG, Hutton Energy

Plan 2012/13 – Vertically fracc and test existing three wells drilled with Talisman in 2013

– Drill 1,000m+ horizontal well with Talisman with multi-staged fracc and testing programme in 2013

– Acquire additional 150km 2D seismic in pending Czersk Concession in Q4 2012/2013

– Drill vertical well in Prabuty Południowe concession in Q1/Q2 2013



SW Carboniferous Basin

Km^2 – 6,939

Acres – 1,714,665

Net Acres – 1,588,147

Partners – Hutton Energy

Plan 2012/13 – Acquire up to 1,000km^2 3D seismic and up to 500km 2D seismic across the basin**

– Test Siciny-2 well including vertical fracc of multiple zones for shale gas and tight gas potential

– Continue drilling Carboniferous play to test the extent of potential resources found in Siciny-2 well

Permian Basin

Km^2 – 7,920

Acres – 7,957,075

Net Acres – 1,709,475

Partners – Gas Plus International, Hutton Energy

Plan 2012/13 – Drill conventional main Dolomite play in Nova Sol for near term oil production

– Acquire up to 1,000km^2 3D seismic and up to 500km 2D seismic across the basin

Chairman's review continued

In June 2012, San Leon Energy also strengthened its overall position further in the Baltic and Carboniferous basins in Poland through our partnership with Hutton Energy. San Leon Energy has acquired a 75% working interest in certain Polish assets for US$15 million, providing 468,512 net acres to the Company in two prospective basins.

Poland
We have now drilled three wells with our partners Talisman energy.

In the northern Baltic Basin the Lewino-1G-2 well was drilled to 3,600 metres into the Upper Cambrian including 310 metres of core. The well encountered continuous gas shows through the Silurian-Ordovician shales and into the Upper Cambrian. The Rogity-1 well was drilled to 2,788 metres including 340 metres of core. The well encountered continuous, liquid rich gas shows throughout the Silurian-Ordovician shales and into the Upper Cambrian. We are currently drilling and nearing total depth in the Szymkowo-1 well in the southern Baltic Basin. So far the well has encountered continuous gas shows in the Silurian shales. An estimated 300 metres of core is planned in the well. Ongoing detailed analysis of the core and well data is being performed in preparation for a future testing programme in Q1/Q2 2013 including potential vertical fraccing, horizontal drilling followed by multistage fraccing and flow-testing.

As mentioned, San Leon Energy has also recently announced that it has purchased a 75% working interest in certain Polish assets held by Hutton Energy for US$15 million with a view to jointly developing these assets. Hutton Energy will be carried through all the seismic work and associated G&A which will be performed by NovaSeis. The Company sees this partnership with Hutton Energy as very positive with it bringing significant North American unconventional gas expertise to the venture.

The acquisition further expands San Leon Energy's unconventional gas acreage by an additional 468,512 net acres in two highly prospective basins – the Baltic Basin and the Carboniferous Basin – whilst also giving the Company an unprecedented acreage position in Poland. We look forward to working with the Hutton Energy team developing these assets.

Morocco
The Company acquired a total of 608km of 2D seismic on our Tarfaya licence and 1,674km of 2D seismic on the Zag licence. Processing and interpretation of this seismic is nearing completion. This work was carried out by NovaSeis, our wireless seismic company.

On the Tarfaya Oil Shale project, good progress has been made advancing the project. Two wells were drilled 10 metres apart confirming the presence of 30 metres or prospective oil at a depth of 195 metres. A third well was drilled which failed to establish connectivity between the wells, however a comprehensive hydro-geological and geochemical review is being planned to identify alternative locations in deeper zones.

On the Sidi Moussa and the Foum Draa licences San Leon Energy and its partners have completed the work programme for both licences. A data room has been opened on both licences to attract industry partners, with a view to receiving final bids by 15 June 2012.

Ireland
Barryroe proved to be a highly successful well for our previous partners, Providence and Lansdowne. We were very pleased to see the result not least because we had opted for a 4.5% net profit interest which will give us very good cash flow, but without the inherent costs of this well or development costs in the future.

As at the time of our fundraising, none of the partners had anticipated drilling this well, we therefore had not allocated any of that funding towards this well and so this deal was mutually beneficial.

Ireland

Atlantic Margin

Km² – 2,880

Acres – 711,664

Net Acres – 481,060

Partners – Lundin, Supernova, Valhalla Oil & Gas

Plan 2012/13 – Continue to look for farm-in partners to fund drilling programmes following 2010/2011 3D seismic acquisition and interpretation programmes

Celtic Sea

Km² – 1,090

Acres – 269,345

Net Acres – 149,178

Partners – Petronas, Sunningdale, Valhalla Oil & Gas, Premier Oil

Plan 2012/13 – To continue to look for partners to develop the assets in the Celtic Sea

During the year the Company completed a 250km^2 3D seismic survey on the North Porcupine Licence (FEL 1/04). We also opened a data room with a view to gaining farm-in partners for the Slyne licence towards the end of last year. Several companies have reviewed the data in the data rooms. We also opened a data room on the North Porcupine licence in Q2 2012 and again several companies have shown interest. We will update the market on both these data rooms as appropriate.

Albania
Last year we completed 840km^2 of 3D seismic over the Durresi block offshore Albania, less than a year after we were awarded the block in February 2011. The new 3D seismic has identified numerous prospects and leads across the licence with unrisked prospective recoverable resources of more than one billion barrels of oil equivalent across the proven petroleum systems.

The Company has also recently signed confidentiality agreements with several large exploration and production companies regarding farm-in into the licence; and continues to receive unsolicited interest from other large exploration and production companies. As a result of which, San Leon Energy opened a data room early to select companies. There has been huge interest in our data room, which is now closed; and we will see letters of intent during June with an announcement expected to the market late July/early August.

We are very excited about the potential of the Durresi Block and believe that it does have huge upside potential.

NovaSeis
NovaSeis, our wireless seismic company, has also been upgraded to allow us to shoot 3D. The team spent eight months in Morocco shooting seismic – across both the Tarfaya and Zag basins – which we are now in the process of interpreting. The equipment has now moved back to Poland where we have completed three new surveys covering the terrain twice as fast and more cost effectively than any campaign in Poland to date.

Advisory Committee
The Company has created an Advisory Committee which will work alongside the management team when considering macro-issues associated with the industry. This Committee will be made up of a number of experienced industry professionals who have a wealth of experience in the energy industry. It is expected that the Advisory Committee will help San Leon Energy build on the success that the Company has already achieved; and provide senior guidance and invaluable strategic and industry insight, as the Company looks to continue to develop its portfolio of assets. The Advisory Committee is initially made up of Gerard Medaisko, Robert Price and Nick Butler, who also serves as the Advisory Committee's Chairman.

New website
Over the last months we have also developed our new website. This is aimed at providing our investors and those interested in the Company with much more in-depth information and regular updates. We will also be engaging with our stakeholders via social media in conversations around oil and gas, the unconventional gas industry, as well as San Leon Energy and its strategy, developments and its operations.

Financial
2011 was another pivotal year for San Leon Energy with a profit of €15.6 million against a loss of €3.97 million in 2010.

Outlook
The focus of the Company is to continue to prove-up our extensive shale gas acreage in Poland. Our strategy of adding as much prospective acreage as we can across different basins, but with different parameters such as depth and maturity, is we believe, the right one as it will give us exposure to at least one if not multiple sweet spots, any one of which could add significant value to your Company.

We are also working diligently towards being cash generative through the drilling of a number of oil wells in July, having already spoken to refineries in both Poland and Germany and are confident that we would be able to monetise any success within 90 days. We will be looking to test flow our carboniferous well Siciny-2 later this year and we are confident that we can monetise any success there in the first half of next year given the pipeline is just 500 metres away from the well.

Our strategy of diversified plays across not only the portfolio, but also within Poland, will allow San Leon Energy to recover much of the ground lost to the market due to its perceived disappointment in the very initial horizontal fracs in Poland. This speaks more to the market's lack of understanding as to how these shale plays are developed than the reality on the ground. Every well drilled in Poland so far has encountered gas and every player in Poland believes that the 3Legs fracs were a technical success.

PGNIG, who have also drilled a well just north of our Lewino-1G/2 well, are now organising themselves for pad-drilling with a view to being the first in Poland to produce commercial shale gas by late this year or early next year.

The Baltic Basin is still at the early stages of its development; but we are, with our partners and other operators in the region, confident that it will become a significant resource for Poland and the rest of Europe.

Morocco

Tarfaya Oil Shale

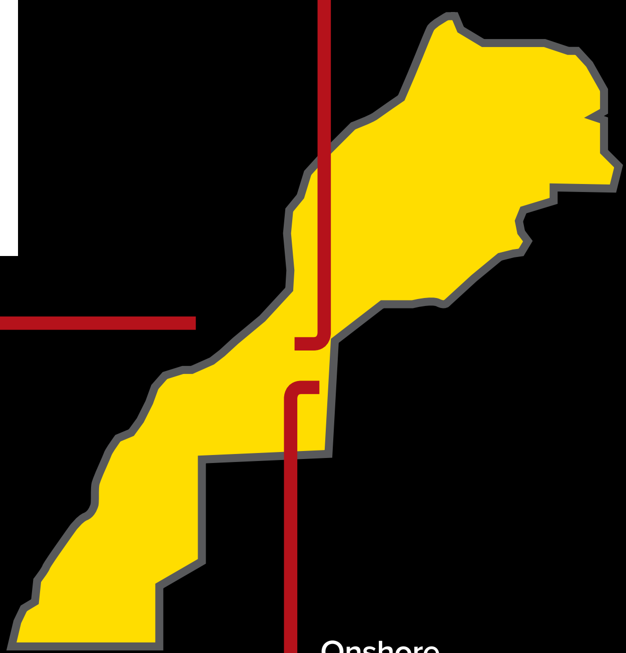
Km² – 6,000

Acres – 1,482,632

Net Acres – 1,111,974

Partners – ONHYM

Plan 2012/13 – Continue to evaluate results towards selecting an alternative site for the future



Offshore

Km² – 12,714

Acres – 3,141,797

Net Acres – 1,335,264

Partners – ONHYM, Serica, Longreach

Plan 2012/13 – Finalise offers from farm-out process

– Plan to drill 1-2 wells in 2013 with new farm-in partners

Onshore

Km² – 35,107

Acres – 8,675,006

Net Acres – 4,554,378

Partners – ONHYM, Longreach

Plan 2012/13 – Finalise processing from 2011/2012 2,200km 2D seismic acquisition

– Build prospect inventory in preparation for 3D sesimic acquisition and potential future drilling programmes

Spain

Cantabrian/Pyrenees Basin

Km² – 2,896

Acres – 715,715

Net Acres – 715,715

Plan 2012/13 – Build geologic database

– Outcrop analysis of potential unconventional reservoir intervals

– Seismic reprocessing of existing 2D seismic data

– Preparation for extensive 2D seismic campaign in 2013/2014

Ebro Basin

Km² – 6,120

Acres – 1,512,383

Net Acres – 1,512,383

Plan 2012/13 – Build geological database

– Outcrop analysis of potential unconventional reservoir intervals

– Seismic reprocessing of existing 2D seismic data

– Preparation for extensive 2D seismic campaign in 2013/2014

Albania

Duressi

Km² – 4,200

Acres – 1,037,843

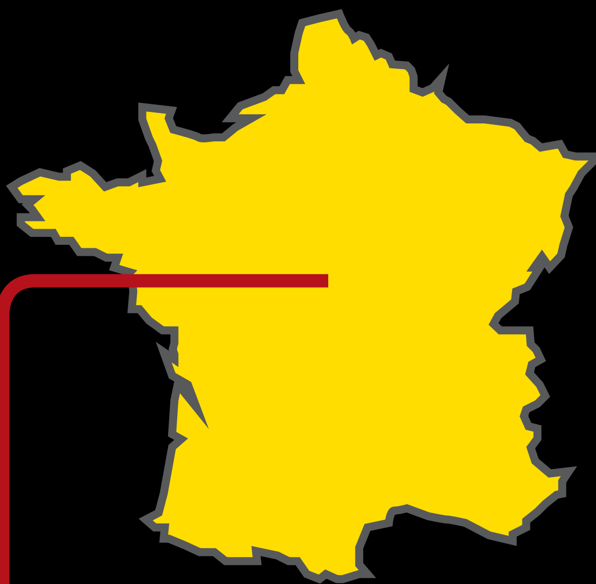
Net Acres – 1,037,843

Plan 2012/13 – Continue to build significant prospect inventory

– Finalise Pre Stack Depth Migration of 2011 Duressi 3D survey

– Continue to engage potential farm-in partners during technical evaluation of data room

France



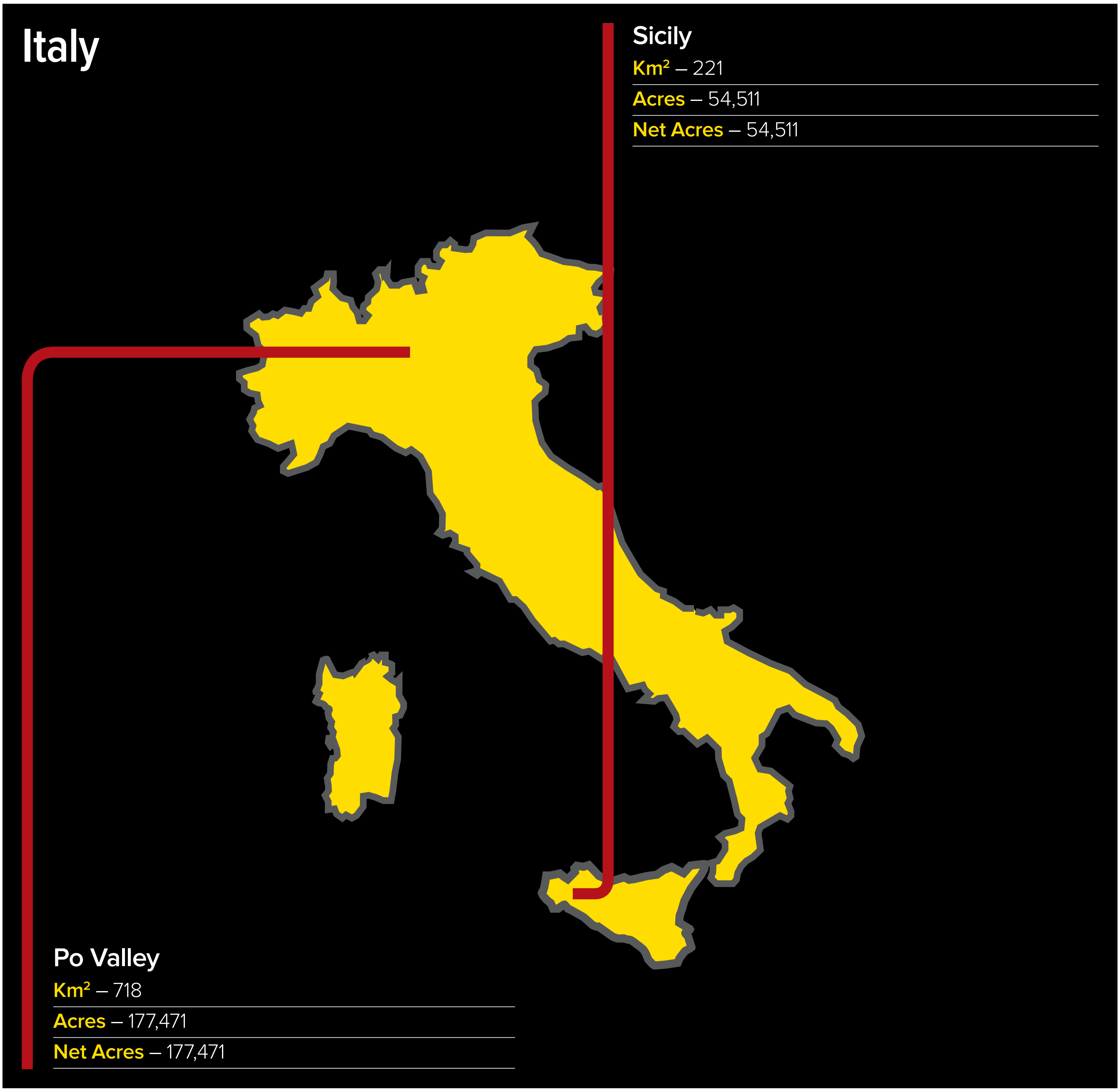
Applications

Km² – 9,539

Acres – 2,357,128

Net Acres – 2,357,128

Plan 2012/13 – All applications are pending lifting of licence award moratorium in France


Italy
Sicily
Km² – 221
Acres – 54,511
Net Acres – 54,511
Po Valley
Km² – 718
Acres – 177,471
Net Acres – 177,471

Germany

Aschen

Km² – 63

Acres – 15,588

Net Acres – 15,588

The Netherlands

Amstel

Km²

Acres

Net Acres

(2.5% royalty)

Partners – GDF Suez, EBN, Taqa

Plan 2012/13 – Looking to divest of royalty interest for cash

Shale gas is transformative and can play a major role in achieving energy security

What is shale gas?

Shales are fine-grained sedimentary rocks. They are compressed tightly and small cracks have to be made in the rocks to release the oil and gas. Before recent advances in releasing energy from shales, oil and gas was found in 'conventional' reservoirs, which are easy to produce from, but hard to find. Shale reservoirs are hard to produce from, but after an initial exploration phase, far more common than 'conventional' reservoirs. Shale gas is identical to natural gas produced today in the North Sea, Russia or imported as LNG.

What are the benefits of shale gas?

Natural gas has one half the carbon content of coal and a quarter that of oil. Shale gas in Europe can cut carbon and increase supply, thus lowering prices. Additionally, shale gas requires local operations, which pay local taxes as employ local workers.

What are the opportunities in Europe?

Shale gas exploration is taking place in almost every country in Europe; the most advanced and prospective shale 'plays' are in Poland. Other countries for prospective large scale shale are Germany, France, Spain, Ukraine and the UK.

The potential volumes are very attractive. This could mean that several billion euros otherwise spent on energy exports may stay at home, creating tax revenues and jobs. We are still probably several years away from any actual production, but this is getting closer and we are more confident with each passing quarter.

What is fraccing?

Hydraulic fracturing has been used in over a million oil and gas wells world-wide since 1949. The modern fraccing stems from Texas in the late 1990s. This is when new technology combining horizontal drilling and breakthroughs in seismic surveys and fracturing fluid allowed shale rocks to release massive volumes of gas.

A mixture of water, sand and less than one half of 1% additives are pumped down to fracture the rock up to 2.5km below ground. Fractures of less than 1mm wide are propped open, allowing gas to flow to the surface. The additives are common household chemicals such as bleach, or polyacrylamide for instance, a chemical already used in higher concentrations in disposable infant nappies (diapers). Another common additive is guar gum, a natural product widely used in toothpaste and ice cream production.

What are the environmental impacts?

Much of the fear over any of shale's alleged environmental impact stems from a lack of familiarity with shale gas as it moves into areas new to the energy industry. In the USA, tens of thousands of wells have been drilled but the US Environmental Protection Agency notes that there have been no proven cases of water contamination. San Leon Energy starts a full public consultation and education programme before and during drilling. This answers any questions the public may have. In May 2012, The International Energy Agency proposed 'Golden Rules for the Golden Age of Gas' that would allay public fears and allow operators to have the 'social licence' to operate. The Golden Rules appear to have only a minor impact on extraction costs while mitigating any possible harm to the environment.

How do we achieve energy security?

Shale gas promises to be the most secure and sustainable form of energy – local energy produced by local people paying local taxes. A key way to ensure energy security is conservation and Western Europe already uses energy very efficiently and projections for gas and electric use are flat for the future. Shale gas promises to replace gas that is either presently imported or comes from declining production areas in the North Sea. Energy efficiency means that shale won't mean an increase in energy use. It will simply change where it comes from.

Despite some fears, shale gas can provide back-up for renewable energy sources such as wind and solar power during downtimes. Neither coal nor nuclear can provide the flexibility required to instantly back up wind or solar generation.

Also, local shale gas can replace any need to consider new nuclear generation in states currently without any.

What are the disadvantages?

As technology advances in North America, Europe can learn valuable lessons in making shale extraction cleaner, quicker and cheaper. Local communities will see various effects depending on local geological and infrastructure issues – it is too early in most cases to give firm indications of actual local disturbance. Suffice to say, the industry has both a financial and logistical interest in making shale gas extraction as unobtrusive as possible.

Compared to even four years ago in the US, European shale would have far lower surface operations and have most of the activity taking place out of sight, thousands of metres underground. Surface disturbance will be short-lived and widely dispersed. Any enduring effect of shale above ground after the construction phase is likely to be minimal and easy to conceal.

What does the future hold?

Shale gas promises good news for both the European economy and the environment. If indications of substantial reserves are borne out, shale can have all manner of unforeseen positive consequences. Shale will need huge volumes of steel for example, leading to a revival of what has been seen as a declining sector. The same applies to the chemical industry where chemicals could be produced locally, further cutting down on the balance of payments deficits. Natural gas makes up 80% or more of the cost of fertiliser. Cheaper energy can mean cheaper food.

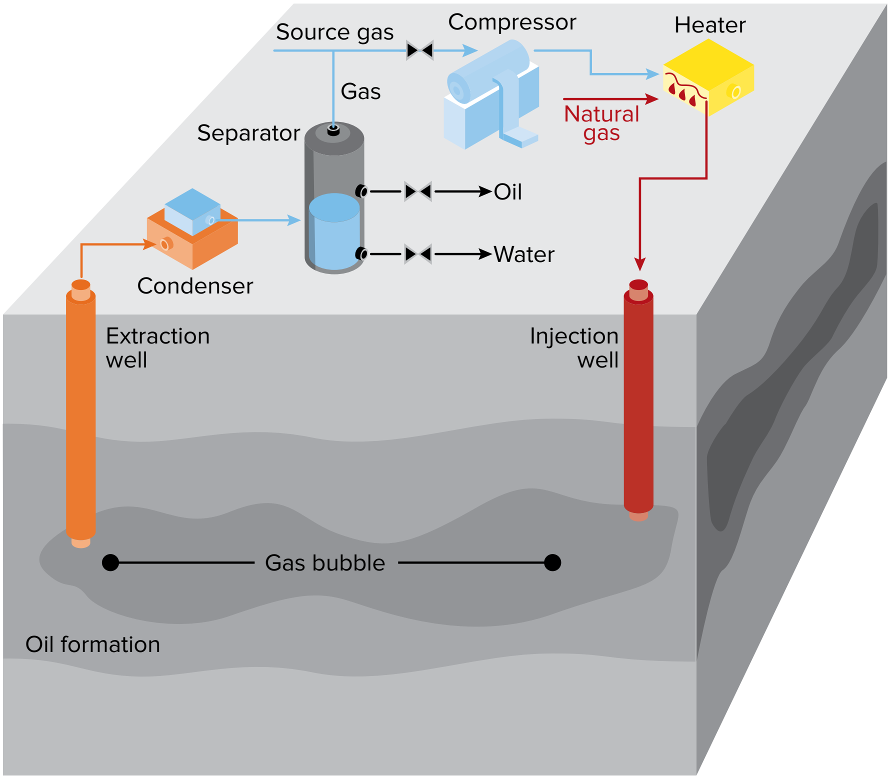
Judging by the data available in the USA, Europe could use natural gas vehicles in the trucking and fleet industries, which could lead to natural gas replacing diesel in heavy good vehicles. This would mean 25% lower carbon, zero particulate emissions and halving the fuel cost.

Finally, instead of constantly rising expensive and insecure oil and gas, European consumers could see price falls in the cost of their heating and electricity bills. Falling energy prices could mean higher disposable incomes which would provide stimulus to European economies.

Shale oil is a vast source of untapped hydrocarbon liquids

17%

increase in proven oil reserves between 1987 and 2007



What is shale oil?

Shale oil is the oil obtained from oil shale, which is a fine-grained sedimentary rock containing an organic material known as kerogen. When heated, kerogen decomposes to provide oil, gas and carbon[1].

How does this differ from shale gas?

Although both shale gas and shale oil are produced from shales, shale oil has the property of carrying kerogen that is a waxy organic substance requiring specific methods to flow and be produced. On the other hand, shale gas derives from low permeable rock with gas trapped in it; gas is usually produced by hydraulically fracturing the shale.

What are the benefits of shale oil?

With modern technology, raw shale oil can be upgraded to either Synthetic Crude Oil (SCO) or to unfinished products (VGO, naptha, and distillate) that can be easily transported and refined.

Extraction of shale oil either through mining-retorting or through in situ drilling is an industry that could eventually provide jobs and training for local communities and help improve the infrastructure of the surrounding areas. Governments benefit from this industry by the increase in tax revenues and the reduction in mineral imports[1].

4.8 trillion
barrels estimated resources in oil shale worldwide

4 times
more oil shale resources than crude oil resources

Are the extraction methods for oil shale similar to shale gas?

The extraction techniques for shale oil are different from shale gas production methods. The conventional and most used technique to extract shale oil is the truck-and-shovel open-pit mining where the mined products are transported to surface-retorting facilities to be refined into synthetic crude oil. Another technique is the in situ conversion that heats the deposits underground[1].

What is the environmental impact of shale oil extraction?

Although few concerns have been raised about the impact of shale oil extraction on water usage, greenhouse gas emissions, land use and waste management, these issues have been addressed and modern technology can enable this industry to have a footprint comparable to that of farming or forestry[1].

What are the opportunities of shale oil?

One of the opportunities of shale oil is the decrease in exploration and drilling costs and risks since most of the oil shale, especially if formed at the bottom of lakes, is continuous[2].

Where is shale oil most prevalent/prolific?

The largest and richest demonstrated resources of shale oil are in western US with 560 billion barrels of shale oil. China, Australia, Jordan, Morocco, Brazil and Estonia have also considerable demonstrated resources[1].

What are the disadvantages of shale oil?

The main disadvantage of shale oil is the high recovery cost. Kerogen should be heated to separate it from the rock and make it flow and the crude shale oil must be treated to create synthetic crude oil. All these procedures require considerable material handling and are very costly[2].

Sources
1: www.oilshale.co.uk
2: http://emfi.mines.edu/emfi2005/OilShale.pdf

Board of Directors

	Oisin Fanning Executive Chairman	**Paul Sullivan** Managing Director	**Dr John Buggenhagen** Exploration Director
Background and experience	Oisin has almost 30 years' experience in structured finance, stockbroking and corporate finance, with 12 years specialising in the oil and gas industry. Formerly CEO of Astley & Pearce Ltd., MMI Stockbrokers, and Smart Telecom Plc, Oisin was closely involved with the restructuring of Dana Petroleum Plc in the early 1990s. He was also a major supporter of Tullow Oil Plc in its early growth phase.	Paul Sullivan gained substantial banking experience over 30 years, before joining San Leon Energy as Commercial Director. He became Managing Director in 2010. Previously, Paul gained extensive Corporate Treasury and Operations experience through senior appointments with leading financial institutions. These included Nordbanken NY, Standard Chartered Bank, Dublin and BNP Paribas in Dublin.	John is an experienced exploration geophysicist and a proven oil finder, having worked as a prospect generator with ARCO Alaska on the North Slope of Alaska and with Aspect Energy in new ventures exploration in Europe. Recently he worked as European Exploration Manager for Aspect Energy and Hungarian Horizon Energy and as Vice-President of Exploration for Gold Point Energy Corp. John joined San Leon Energy in 2009 as Vice-President of Exploration. He was appointed Exploration Director in 2010.
Key strengths	Oisin is both visionary and deeply practical in pursuing business goals on behalf of stakeholders. He recognises the importance of finding and developing talented people to achieve a clear set of objectives.	Paul is well qualified to acquire and integrate San Leon Energy's corporate acquisitions, acquire licences and exploit the potential of both conventional and shale assets.	Internationally acknowledged as a leading explorationist with a track record of success. John has a B.Sc. in Geophysics from the University of Arizona and an M.Sc. and Ph.D. in Geophysics from the University of Wyoming.
Commentary	"San Leon Energy is at a fascinating stage in its development. We've created a significant portfolio of assets across the region and now our talented team is working hard on realising that potential."	"The three acquisitions we have made and the licences we have been awarded give us a unique opportunity. We're now focused on organic growth and generating significant revenue from our asset portfolio."	"San Leon Energy's assets, talented team, financial resources and quick-decision management gives us the best possible basis for exploration."
Committee memberships	Member of Nominations Committee	Member of Audit and Nominations Committees	

A considerable amount of experience in the energy industry

Dr Jeremy Boak
Non Executive Director

Director of the Centre for Shale Technology and Research (COSTAR) at the Colorado School of Mines, Jeremy chairs the leading international symposium on shale development and the Oil Shale Committee of the Energy Minerals Division (EMD) of the American Association of Petroleum Geologists (AAPG).

He was formerly Project Manager at Los Alamos National Laboratory, Branch Chief at the US Department of Energy and exploration and development geologist for ARCO Oil & Gas Company.

Jeremy is a proven and acknowledged expert in shale exploration and development. Affiliated with AAPG, EMD, and the Geological Society of America, Jeremy is extensively published and has a Ph.D. and a B.A. in Geology from Harvard University, as well as an M.S. in Geology from the University of Washington.

"San Leon Energy is Europe's leading shale gas company by acreage. My experience in shale in the United States can now be brought to bear on this significant portfolio."

Daniel Martin
Non Executive Director

Daniel is a London-based commercial lawyer and graduate of Cambridge University, the University of South Carolina, and the American University Law School in Washington, DC.

He has extensive legal and corporate finance experience – this includes having acted as a legal advisor to Nissan, Chrysler and Texaco. Daniel is a co-founder and Director of Green Corporate Finance and is also a member of South Carolina Bar.

Daniel has considerable skills and expertise in both commercial law and corporate finance.

"I see my role as bringing my legal and financial skills to the Board of this exciting company, giving it the advice needed to enable it to continue to grow and develop."

Member of Remuneration and Risk and Safety Committee

Ray King
Company Secretary

Ray is a qualified Chartered Secretary, Banker, Compliance Officer and has considerable experience in IT and Finance.

As a Chartered Secretary with 40 years' experience, much of it with a large City bank, he has acted as Company Secretary and in various senior Executive and Non Executive Director roles for companies which have been brought to the AIM, Nasdaq and Plus.

Ray is a highly experienced and seasoned Company Secretary with considerable experience of listed entities. He is a Fellow of the Institute of Chartered Secretaries and Administrators, the Chartered Institute of Bankers and the Institute of Financial Accountants. He is also qualified as a Chartered Information Technology Professional and has achieved the Certificate of Regulated Insurance.

"My objective is to ensure that San Leon Energy is fully compliant in all aspects of its decision-making and operations."

Member of Remuneration, Audit, Risk and Safety and Nominations Committees

Directors' report

The Directors present their annual report together with the audited financial statements of San Leon Energy plc ("the Company") and its subsidiaries (collectively "the Group") for the year ended 31 December 2011.

Principal Activity

The principal activity of the Company is the exploration and production of oil and gas.

A detailed review of activities for the year and future prospects of the Group is contained in the Chairman's Statement and Operating Review.

Results and Dividends

The Group profit/(loss) for the year after providing for depreciation and taxation amounted to €15,599,885 (2010: loss of €3,976,375). Net assets of the Group at 31 December 2011 are €191,918,309 (2010: €121,226,592). No dividends are proposed by the Directors.

Principal Risks and Uncertainties

The Group's principal areas of oil and gas exploration activity are in Poland, Morocco, Ireland, Albania, Spain and Italy. The Group also holds a royalty interest in the Amstel Field, Holland. The Group has a management structure and system of internal controls in place designed to identify, evaluate, manage and mitigate business risk. Details of the principal financial risks are set out in note 30. Other risks and uncertainties are considered to be the following:

Exploration Risk

Exploration and development activities may be delayed or adversely affected by factors outside the Group's control, in particular, climatic conditions, performance of joint venture partners or suppliers, availability of drilling and other equipment, delays or failures in installing and commissioning plant and equipment, unknown geological conditions, remoteness of location, actions of host governments or other regulatory authorities (relating to, inter alia, the grant, maintenance or renewal of any required authorisations, environmental regulations or changes in law).

Commodity Price Risk

The demand for, and price of oil and gas is dependent on global and local supply and demand, actions of governments or cartels and general global economic and political developments.

Political Risk

As a consequence of activities in different parts of the world, the Group may be subject to political, economic and other uncertainties, including but not limited to terrorism, war or unrest, changes in national laws and energy policies and exposure to different legal systems.

Environmental Risk

Environmental and safety legislation may change in a manner that may require stricter or additional standards than those now in effect, which could result in heightened responsibilities for the Group and potentially increased operating costs.

Currency Risk

Although the reporting currency is Euro, significant transactions denominated in other currencies are entered into by the Group including exploration expenditure, other costs and equity funding, thus creating currency exposures for the Group.

Share Price

The share price movement in the year ranged from a low of £0.078 to a high of £0.395. The share price at the year end was £0.085.

Directors

The Directors of San Leon Energy plc, all of whom served for the full year except where indicated, are as follows:

Oisin Fanning, Executive Chairman
Paul Sullivan, Managing Director
John Buggenhagen, Director of Exploration
Raymond King, Non Executive Director and Company Secretary
Jeremy Boak, Non Executive Director
Daniel Martin, Non Executive Director
Philip Thompson, Non Executive Director with effect from 21 April 2011 and resigned on 6 February 2012

In accordance with the Articles of Association, Oisin Fanning and Jeremy Boak retire from the Board and being eligible offer themselves for re-election.

Directors and their Interests

The Directors and Secretary who held office at 1 January 2011 and 31 December 2011 had no interests other than those shown below in the Ordinary Shares of the Company. All interests are beneficially held.

	Ordinary Shares		
Director	26/06/12	31/12/11	01/01/11
Oisin Fanning	59,840,000	59,840,000	58,840,000
Paul Sullivan	59,840,000	59,840,000	58,840,000
John Buggenhagen	–	–	–
Raymond King	–	–	–
Jeremy Boak	–	–	–
Daniel Martin	1,134,549	1,134,549	1,134,549
Philip Thompson (resigned 6 February 2012)	58,840,000	58,840,000	58,840,000

Share Options

Details of share options granted to the Directors are as follows:

Director	Options at 01/01/11	Granted in year	Exercised in year	Options at 31/12/11	Exercise price	Expiry date
Oisin Fanning	5,250,000^^	–	–	5,250,000	£0.11	04/02/16
	5,000,000^	–	–	5,000,000	£0.35	25/07/17
	250,000	–	–	250,000	£0.25	29/12/17
	–	3,500,000^	–	3,500,000	£0.35	13/02/18
	–	250,000	–	250,000	£0.11	14/11/18
	–	2,750,000	–	2,750,000	£0.11	14/11/18
	–	5,500,000*	–	5,500,000	€0.05	14/11/18
Philip Thompson	3,750,000^^	–	–	3,750,000	£0.11	04/02/16
	5,000,000^	–	–	5,000,000	£0.35	25/07/17
	250,000	–	–	250,000	£0.25	29/12/17
	–	250,000	–	250,000	£0.11	14/11/18
Paul Sullivan	4,750,000^^	–	–	4,750,000	£0.11	04/02/16
	5,000,000^	–	–	5,000,000	£0.35	25/07/17
	250,000	–	–	250,000	£0.25	29/12/17
	–	2,500,000^	–	2,500,000	£0.35	13/02/18
	–	250,000	–	250,000	£0.11	14/11/18
	–	2,750,000	–	2,750,000	£0.11	14/11/18
	–	4,000,000*	–	4,000,000	€0.05	14/11/18
John Buggenhagen	1,000,000	–	–	1,000,000	£0.11	04/02/16
	1,000,000	–	–	1,000,000	£0.11	04/02/17
	1,000,000	–	–	1,000,000	£0.11	04/02/18
	1,000,000	–	–	1,000,000	£0.17	25/07/17
	5,000,000^	–	–	5,000,000	£0.35	25/07/17
	250,000	–	–	250,000	£0.25	29/12/17
	–	2,000,000^	–	2,000,000	£0.35	13/02/18
	–	250,000	–	250,000	£0.11	14/11/18
	–	4,000,000*	–	4,000,000	€0.05	14/11/18
Raymond King	1,000,000	–	–	1,000,000	€0.05	22/09/15
	1,000,000	–	–	1,000,000	£0.11	04/02/16
	250,000	–	–	250,000	£0.25	29/12/17
	–	250,000	–	250,000	£0.11	14/11/18
Jeremy Boak	1,000,000	–	–	1,000,000	£0.11	06/07/15
	500,000	–	–	500,000	£0.11	04/02/16
	250,000	–	–	250,000	£0.25	29/12/17
	–	250,000	–	250,000	£0.11	14/11/18
Daniel Martin	1,000,000	–	–	1,000,000	£0.17	25/07/17
	250,000	–	–	250,000	£0.25	29/12/17
	–	250,000	–	250,000	£0.11	14/11/18

^ The 20,000,000 options granted at £0.35 in 2010 and the 8,000,000 options granted at £0.35 in 2011 are only exercisable on fulfilment of a market condition requiring the Company share price to exceed £1.00 and £1.20 respectively for a period of 30 days.

^^ Includes 2.75 million options which have been cancelled subsequent to the year end.

* Options vest subject to achievement of a production target of 500 barrels of oil equivalent per day within the life of the option.

On 21 March 2012, Oisin Fanning, Paul Sullivan, John Buggenhagen and Raymond King were granted 3,500,000, 3,000,000, 2,500,000 and 1,500,000 share options respectively. The options have an exercise price of £0.13 and a seven-year term.

Transactions Involving Directors
There have been no contracts or arrangements of significance during the year in which Directors of the Company were interested other than as disclosed in note 29 to the financial statements.

Significant Shareholders
The Company has been informed that, in addition to the interests of the Directors above, at 31 December 2011 and the date of this report, the following shareholders own 3% or more of the issued share capital of the Company:

	Percentage of issued share capital	
	26/06/12	31/12/11
Quantum Partners LLP	18.95%	19.08%
Blackrock Investment Management Ltd	11.69%	11.77%

The Directors are not aware of any other holding of 3% or more of the share capital of the Company.

Group Undertakings
Details of the Company's subsidiaries are set out in note 13 to the financial statements.

Political Donations
There were no political donations during the current or prior years.

Directors' Responsibility Statement
The Directors are responsible for preparing the Annual Report and Accounts and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. As required by AIM and as permitted by company law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (EU IFRS) and have elected to prepare the Company financial statements in accordance with EU IFRS, as applied in accordance with the provisions of the Irish Companies Acts, 1963 to 2009 ("the Companies Acts").

The Group and Company financial statements are required by law and EU IFRS to present fairly the financial position and performance of the Group; the Companies Acts provide, in relation to such financial statements, that references in the relevant part of the Acts to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

Under applicable law and the requirements of the AIM Rules, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' remuneration.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2009. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern
The Directors have reviewed budgets, projected cash flows and other relevant information, and on the basis of this review, are confident that the Company and the Group will have adequate financial resources from its existing cash balances, the proceeds from the sale of its Amstel Royalty interest (note 31) and undrawn agreed facilities (see note 30) to continue in operational existence for the foreseeable future which covers a period of at least 12 months from the date of approval of these financial statements.

The Directors have discussed the assumptions and basis of preparation of the projections and having considered the financial resources available consider that it is appropriate to prepare the financial statements on the going concern basis.

Corporate Governance
The Directors are committed to maintaining high standards of corporate governance consistent with the size, nature and stage of development of the Company. The Board is accountable to shareholders for good corporate governance and has adopted the following procedures in this regard.

The Board
The Board comprises three Executive Directors and three Non Executive Directors. In order to ensure that the Directors can properly carry out their roles, the members of the Board are provided with comprehensive information and financial details prior to all Board meetings. The Board meets at least six times a year to discuss and decide the Company's business and strategic decisions. In addition,

there is a high degree of contact between Board meetings to ensure all Directors are aware of the Company's business. If necessary, the Non Executive Directors may take independent advice at the expense of the Company.

Remuneration Committee
The Remuneration Committee is composed of Raymond King and Daniel Martin with Raymond King appointed as chairman. The Remuneration Committee monitors the performance of each of the Company's Executive Directors and senior executives to ensure they are rewarded fairly for their contribution. The recommendations of the Remuneration Committee are presented to a meeting of the full Board. The remuneration and terms and conditions of appointment of the Non Executive Directors are set by the Board as a whole.

Audit Committee
The Audit Committee consists of Raymond King and Paul Sullivan with Raymond King appointed as chairman. The Audit Committee is responsible for ensuring that the UK Corporate Governance Code is implemented in respect of matters relating to the Company's external audit. In addition, the Committee also discusses the scope of the audit before its commencement and it receives reports from the external auditors. The Committee also recommends the appointment of, and will review the fees of, the external auditors. The Audit Committee meets the external auditors and meets internally at least twice per year. It also meets on an ad hoc basis as required.

Nominations Committee
The Nomination Committee consists of Oisin Fanning, Paul Sullivan and Raymond King with Oisin Fanning appointed as chairman. The nominations committee is responsible for reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any changes required. It is responsible for identifying appropriate senior candidates and conducting initial interviews and submitting recommendations on any appointment to the Board.

Risk and Safety Committee
The Risk and Safety Committee consists of Daniel Martin and Raymond King with Raymond King appointed as chairman. The committee is responsible for evaluating risks in Group operations including property, personnel and environmental risks and ensuring that appropriate procedures are in place for mitigating risk and ensuring that adequate insurance cover is in place for identifiable risks.

Advisory Committee
San Leon Energy formed a new advisory committee ("Advisory Committee") in February 2012. The Advisory Committee will be made up of a number of experienced industry professionals who have a wealth of experience in the energy industry. The current members are Nick Butler (Chairman), Gerard Medaisko and Robert Price. It is expected that the Advisory Committee will provide senior guidance, invaluable strategic and industry insight, as well as their expertise and advice as the Company looks to continue to develop its portfolio of assets. A key role of the Advisory Committee will be to work alongside the management team and evaluate new opportunities that the Company is investigating.

Communications
The Company maintains regular contact with shareholders through publications such as the annual and half-year report and via press releases and the Company's website, www.sanleonenergy.com. The Directors are responsive to shareholder telephone and email enquiries throughout the year. The Board regards the Annual General Meeting as a particularly important opportunity for shareholders, Directors and management to meet and exchange views.

Internal Control
The Board acknowledges its overall responsibility for ensuring that the Company has a system of internal controls in place that is appropriate. However, shareholders should be mindful that any system can only provide reasonable, not absolute assurance against material misstatement or loss and is designed to manage but not eliminate the risk of failure to achieve business objectives. The key procedures are:

- preparation of annual budgets for all licence areas for approval by the Board;
- ongoing review of expenditure and cash flows versus approved budget;
- establishment of appropriate cash flow management and treasury policies for the management of liquidity, currency and credit risk on financial assets and liabilities;
- regular management meetings to review operating and financial activities;
- recruitment of appropriately qualified and experienced staff to key financial and management positions.

The Company has adopted a model code for Directors' share dealings which is appropriate for an AIM quoted company. The Directors comply with Rule 21 of the AIM Rules relating to Directors' dealings and take all reasonable steps to ensure compliance by the Company's applicable employees.

Remuneration Committee Report
The Group's policy on senior executive remuneration is designed to attract and retain individuals of the highest calibre who bring relevant experience and independent views to the development of policy, strategic decisions and governance of the Group.

In determining remuneration levels, the Remuneration Committee takes into consideration the practices of other companies of similar scope and size. A key philosophy is that staff should be properly rewarded and motivated to perform in the best interests of the shareholders.

Director emoluments and pension contributions, excluding share based payments, during the year ended 31 December 2011 were as follows:

	Salary & emoluments €	Pension €	Fees €	2011 Total €	2010 Total €
Oisin Fanning	1,075,810	–	50,000	1,125,810	563,001
Philip Thompson+	132,932	–	50,000	182,932	483,001
Paul Sullivan	371,355	178,000	50,000	599,355	510,913
John Buggenhagen#	570,264	–	50,000	620,264	149,505
Charles McEvoy*	–	–	–	–	486,874
Raymond King^	–	–	168,000	168,000	60,600
Jeremy Boak	–	–	35,550	35,550	46,775
Daniel Martin^	–	–	161,372	161,372	34,778
Shaun Hennessy^**	–	–	–	–	69,409
	2,150,361	178,000	564,922	2,893,283	2,404,856

+ Resigned as an Executive Director in April 2011.
# From date of appointment as Director on 28 August 2010.
* Resigned 31 December 2010.
^ Includes amounts paid to companies under service agreements entered into by the Group for the services of these individuals.
** Deceased 6 July 2010.

In accordance with IFRS 2, Share based payments, an additional cost of €1,883,145 (2010: €655,623) has been recognised in respect of share options granted to Directors (see note 25).

Books and Accounting Records
The Directors are responsible for ensuring proper books and accounting records, as outlined in Section 202 of the Companies Act 1990, are kept by the Company. The Directors, through the use of appropriate procedures and systems and the employment of competent persons, have ensured that measures are in place to secure compliance with these requirements. The books and accounting records are maintained at 3300 Lake Drive, Citywest Business Campus, Dublin 24.

Auditor
The Auditor, KPMG, Chartered Accountants have indicated their willingness to continue in office in accordance with the provisions of Section 160(2) of the Companies Act, 1963.

Events since the year end
Details of significant events since the year end are included in note 31.

On behalf of the Board

Paul Sullivan
Director

Oisin Fanning
Director

Independent auditors' report to the members of San Leon Energy plc

We have audited the Group and Company financial statements (the "financial statements") of San Leon Energy plc for the year ended 31 December 2011 which comprise the Statement of accounting policies, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Group and Company Statements of Changes in Equity, the Group and Company Statements of Financial Position, the Group and Company Statements of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Directors' Responsibility Statement on page 24.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and, in the case of the Company, as applied in accordance with the provisions of the Companies Acts, 1963 to 2009 have been properly prepared in accordance with the Companies Acts 1963 to 2009. We also report to you, in our opinion whether proper books of account have been kept by the company; whether at the reporting date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the parent company statement of financial position is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of AIM regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report and the Chairman's Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent auditors' report to the members of San Leon Energy plc continued

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the Company's affairs as at 31 December 2011; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

Emphasis of matter – Carrying value of Intangible Assets and Financial Assets – Net Profit Interest
In forming our opinion, which is not qualified, we have considered the adequacy of disclosures made in Note 9 and Note 14 to the financial statements in relation to the Directors' assessment of the carrying value of the Group's Intangible Assets amounting to €140.3 million and the carrying value of the Group's Financial Assets – Net Profit Interest amounting to €39.2 million. The financial statements do not include adjustments that would result if the Group could not recover the full carrying value of the Intangible Assets or the full carrying value of the Financial Assets – Net Profit Interest.

Other matters
We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Company Statement of Financial Position is in agreement with the books of account.

In our opinion the information given in the Directors' report is consistent with the financial statements.

The net assets of the Company, as stated in the Company statement of financial position are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2011 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 may require the convening of an extraordinary general meeting of the Company.

Roger Gillespie
for and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm
1 Stokes Place
St Stephen's Green
Dublin 2

26 June 2012

Statement of accounting policies
for the year ended 31 December 2011

San Leon Energy plc ("the Company") is a company incorporated and domiciled in the Republic of Ireland. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The registered office address is 1st Floor, Wilton House, Wilton Place, Dublin 2.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Statement of compliance
As required by AIM rules and permitted by company law, the Group financial statements have been prepared in accordance with IFRS as adopted by the EU ("EUIFRS"). The individual financial statements of the Company (company financial statements) have been prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts, 1963 to 2009 which permits a Company, that publishes its Company and Group financial statements together, to take advantage of the exemption in Section 148(8) of the companies Act 1963, from presenting to its members its Company Statement of Comprehensive Income and related notes that form part of the approved company financial statements.

The IFRSs adopted by the EU as applied by the Company and Group in the preparation of these financial statements are those that were effective for accounting periods ending on or before 31 December 2011.

The accounting policies adopted are consistent with those of the previous year except for the following new and amended IFRS and IFRIC interpretations adopted by the Group as of 1 January 2011 that are effective for the Group's financial year ending on 31 December 2011 and that had no significant impact on the results or financial position of the Group for the year ended 31 December 2011:
- Improvements to IFRSs (2010)
- IAS 24 – revised related Party Disclosures
- IFRIC 19 – extinguishing Financial liabilities with equity instruments
- amendment to IAS 32 – Financial instruments: Presentation – classification of rights issues
- amendment to IFRIC 14 – Prepayments of a Minimum Funding requirement

New standards and interpretations not yet adopted
There are a number of new standards, amendments to standards and interpretations published but not yet effective and not applied in preparing these consolidated financial statements. The application of the forthcoming standards and interpretations which have not yet been endorsed by the EU is not expected to have a material impact on the Group or company financial statements. A number of standards have been issued which are awaiting EU endorsement as follows:
- IFRS 9 Financial instruments, which is likely to be effective for the Group's consolidated financial statements for the year ending 31 December 2013, will replace a number of existing financial instrument accounting standards or elements of existing standards, including, in particular, IAS 39, and could materially change the classification and measurement of the Group's financial instruments;
- IFRS 10 Consolidated Financial Statements, which is likely to be effective for the Group's consolidated financial statements for the year ending 31 December 2013, revises, in particular, the definition of control and the basis for determining whether or not particular entities are included or excluded from consolidated financial statements and could change the classification of certain entities in which the Group holds interests;
- IFRS 11 Joint Arrangements, which is likely to be effective for the Group's consolidated financial statements for the year ending 31 December 2013, will change the current definitions and accounting for jointly controlled arrangements;
- IFRS 12 Disclosure of interests in other entities, which is likely to be effective for the Group's consolidated financial statements for the year ending 31 December 2013, will require enhanced disclosures in relation to consolidated and unconsolidated entities;
- IFRS 13 Fair Value Measurement, which is likely to be effective for the Group's consolidated financial statements for the year ending 31 December 2013, defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements.

The Group does not plan to adopt the standards early. In due course, the extent of the impact of the changes prescribed by these standards on the Group's accounting policies will be assessed. However, this has not been determined as yet. In addition, the IASB's Annual improvements Process, together with some minor amendments to other existing standards, are being assessed by the Group. These new standards and interpretations are not expected to have a material impact on the Group financial statements.

Basis of preparation
The Group and Company financial statements are prepared on the historical cost basis, except for financial assets (net profit interests), which are carried at fair value, and equity settled share option awards and warrants which are measured at grant date fair value.

Functional and presentation currency
These consolidated financial statements are presented in Euro (€), which is the Company's functional currency and the Group's presentational currency.

Use of estimates and judgements
The preparation of financial statements in conformity with EUIFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, significant areas of estimation uncertainty and critical judgements used in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements include:
- recoverability of intangible assets (note 9);
- measurement of financial assets (note 14);
- measurement of decommissioning provisions (note 22);
- measurement of share-based payments (note 25);
- utilisation of tax losses (note 28).

Basis of consolidation
The financial information incorporates the financial information of the Company and entities controlled by the Group (its subsidiaries). Control is the power either directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases. Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies into line with those used by other members of the Group. Intra-group balances and any unrealised gains and losses or income or expenses arising from intra-group transactions are eliminated in preparing the Group financial statements.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions
The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved
- in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Intangible assets – exploration and evaluation assets
Expenditure incurred prior to obtaining the legal rights to explore an area is recognised in profit or loss as incurred. All expenditure relating to licence acquisition, exploration, evaluation and appraisal of oil and gas interests, including an appropriate share of directly attributable overheads, is capitalised on a licence by licence basis.

Exploration and evaluation assets are carried at cost until the exploration phase is complete or commercial reserves have been discovered. The Group regularly reviews the carrying amount of exploration and evaluation assets for indicators of impairment and capitalised costs are written off where the carrying amount of assets may not be recoverable. Where commercial reserves have been established and development is approved by the Board, the relevant expenditure is transferred to oil and gas properties following assessment of impairment.

Royalty
Royalty assets are carried at cost less accumulated amortisation. Amortisation is charged in proportion to the current year production based on total estimated production over the life of the field.

Impairment
The carrying amounts of the Group's assets are reviewed at each reporting date and, if there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

Estimates on impairment are limited to an assessment by the Directors of any events or changes in circumstance that would indicate that the carrying amount of the asset may not be recoverable.

Any impairment loss arising from the review is recognised in profit or loss to the extent the carrying amount of the asset exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Oil and gas properties
Oil and gas properties are stated at cost less accumulated depreciation and impairment losses. The initial cost comprises the purchase price or construction cost including any directly attributable costs of bringing the asset into operation and any estimated decommissioning provision.

Oil and gas properties are depleted on a unit of production basis over the estimated proven and probable reserves of the field.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write-off the cost less residual value of each asset over its expected useful life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life. The annual rate of depreciation for each class of depreciable asset is:

Office equipment	25% Straight line
Motor vehicle	20% Reducing balance
Plant and equipment	20%-33% Straight line

Jointly controlled operations or assets
The Group has entered into a number of joint venture arrangements on production and exploration assets that result in jointly controlled assets. The Group accounts for only its share of assets, liabilities, income and expenditure in relation to these jointly controlled assets.

Jointly controlled entities
The Group also has entered into joint venture arrangements which are operated through jointly controlled entities. The Group accounts for its interest in these entities on an equity basis, with Group share of profit or loss after tax recognised in the Income Statement and its share of other comprehensive income of the joint venture recognised in other comprehensive income.

Financial fixed assets
Financial fixed assets in the Company Statement of Financial Position consist of investments in subsidiary undertakings and are stated at cost less provision for impairment where applicable.

Financial asset – net profit interest
The Group's net profit interest in the Standard Exploration Licence 1/11, Barryroe, Celtic Sea, Ireland has been classified as a financial asset. Subsequent to initial recognition, it is measured at fair value and changes therein are recognised in other comprehensive income. On disposal, the cumulative gain or loss previously reported in other comprehensive income is included in the calculation of any gain or loss arising on disposal and recognised in profit or loss.

Decommissioning provision
A provision is made for decommissioning of oil and gas wells. The cost of decommissioning is determined through discounting the amounts expected to be payable to their present value at the date the provision is recognised and reassessed at each reporting date. This amount is regarded as part of the total investment to gain access to economic benefits and consequently capitalised as part of the cost of the asset and the liability is recognised in provisions. Such cost is depleted over the life of the asset on the basis of estimated proven and probable reserves and charged to the Income Statement. The unwinding of the discount is reflected as a finance cost in the Income Statement over the life of the field or well.

Taxation
Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they are controlled and probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Foreign currencies
Transactions in foreign currencies are initially translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates ruling at the reporting date with gains or losses recognised in profit or loss. Non-monetary items are translated using the exchange rates ruling as at the date of the initial transaction.

Foreign operations
The assets and liabilities of foreign operations are translated into Euro at the exchange rate at the reporting date and the income and expenses of foreign operations are translated at the actual exchange rates at the date of the transaction or at average exchange rates for the year where this approximates to the actual rate. Exchange differences arising on translation are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. Details of exchange rates used are set out in note 30.

Revenue
Revenue from the sale of gas is recognised when the significant risks and rewards of ownership have been transferred, which is when the title passes to the customer. Revenue is measured at the fair value of the consideration receivable net of value added tax.

Finance income and expenses
Interest income is accrued on a time basis by reference to the principal on deposit and the effective interest rate applicable.

Finance expenses comprise interest or finance costs on borrowings and unwinding of any discount on provisions using the effective interest rate.

Share capital
Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Share based payments
The Group has applied the requirements of IFRS 2 Share based payments' The Group issues share options as an incentive to certain key management and staff (including Directors), which are classified as equity settled share based payment awards. The grant date fair value of share options granted to Directors and employees under the Company's share option scheme is recognised as an expense over the vesting period with a corresponding credit to the share based payments reserve. The fair value is measured at grant date and spread over the period during which the awards vest. The fair value of options granted in the year has been determined by an external valuer using an appropriate valuation model as detailed in note 25.

The options issued by the Group are subject to both market-based and non-market based vesting conditions. Market conditions are included in the calculation of fair value at the date of the grant. Non-market vesting conditions are not taken into account when estimating the fair value of awards as at grant date; such conditions are taken into account through adjusting the number of the equity instruments that are expected to vest.

The proceeds received net of any directly attributable transaction costs will be credited to share capital (nominal value) and share premium when options are converted into ordinary shares.

Earnings per share
The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes, share options granted to employees, warrants and exchangeable shares.

Segmental reporting
A segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses which is subject to risks and rewards that are different from those of other segments and for which discrete financial information is available.

All operating segments and results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to each segment and to assess its performance.

Full details of the Group's operating segments all of which are involved in oil and gas exploration are set out in note 1 to the financial statements.

Consolidated income statement

for the year ended 31 December 2011

	Note	2011 €	2010 €
Continuing operations			
Revenue	1	**1,039,654**	592,047
Cost of sales		**(566,469)**	(447,750)
Gross profit		**473,185**	144,297
Other income	2	**25,990,204**	1,501,100
Administrative expenses		**(7,225,224)**	(4,215,347)
Exploration costs written-off	9	**(2,684,290)**	–
Profit/(loss) from operating activities		**16,553,875**	(2,569,950)
Finance expense	4	**(1,258,186)**	(1,414,193)
Finance income	5	**344,255**	8,825
Share of loss of equity-accounted investments	10	**(4,715)**	–
Profit/(loss) before income tax		**15,635,229**	(3,975,318)
Income tax expense	7	**(35,344)**	(1,057)
Profit/(loss) for the year attributable to equity holders of the Group		**15,599,885**	(3,976,375)

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Note	2011 €	2010 €
Profit/(loss) for the year		**15,599,885**	(3,976,375)
Foreign currency translation differences		**915,281**	382,768
Total comprehensive income/(loss) for the year		**16,515,166**	(3,593,607)
Earnings per share:			
Basic earnings/(loss) per ordinary share	8	**1.85 cent**	(1.02) cent
Diluted earnings/(loss) per ordinary share	8	**1.77 cent**	(1.02) cent

The accompanying notes on pages 40-66 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisin Fanning
Director

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Share capital €	Share premium €	Currency translation reserve €	Share based payment reserve €	Retained earnings €	Attributable to equity holders of Group €	Non-controlling interest €	Total equity €
2010								
Balance at 1 January 2010	16,059,196	23,976,523	–	2,321,035	(9,323,365)	33,033,389	–	33,033,389
Total comprehensive income for year								
Loss for the year	–	–	–	–	(3,976,375)	(3,976,375)	–	(3,976,375)
Other comprehensive income								
Foreign currency translation differences	–	–	382,768	–	–	382,768	–	382,768
Total comprehensive income for year	–	–	382,768	–	(3,976,375)	(3,593,607)	–	(3,593,607)
Transactions with owners recognised directly in equity								
Contributions by and distributions to owners								
Issue of shares	19,533,715	55,313,322	–	–	–	74,847,037	–	74,847,037
Issue of shares related to business combinations (note 26)	3,463,832	12,203,515	–	–	–	15,667,347	–	15,667,347
Share options and warrants exercised	43,037	95,855	–	–	–	138,892	–	138,892
Share based payment (note 25)	–	–	–	1,133,534	–	1,133,534	–	1,133,534
Effect of share options exercised	–	–	–	(37,424)	37,424	–	–	–
Total transactions with owners	23,040,584	67,612,692	–	1,096,110	37,424	91,786,810	–	91,786,810
Balance at 31 December 2010	**39,099,780**	**91,589,215**	**382,768**	**3,417,145**	**(13,262,316)**	**121,226,592**	**–**	**121,226,592**
2011								
Balance at 1 January 2011	39,099,780	91,589,215	382,768	3,417,145	(13,262,316)	121,226,592	–	121,226,592
Total comprehensive income for year								
Profit for the year	–	–	–	–	15,599,885	15,599,885	–	15,599,885
Other comprehensive income								
Foreign currency translation differences	–	–	915,281	–	–	915,281	–	915,281
Total comprehensive income for year	–	–	915,281	–	15,599,885	16,515,166	–	16,515,166
Transactions with owners recognised directly in equity								
Contributions by and distributions to owners								
Issue of shares related to business combinations (note 26)	15,352,623	26,926,235	–	–	–	42,278,858	–	42,278,858
Issue of shares (note 23)	1,542,267	3,938,527	–	–	–	5,480,794	–	5,480,794
Share options and warrants exercised (note 23)	663,921	437,243	–	–	–	1,101,164	–	1,101,164
Share based payment (note 25)	–	–	–	2,792,554	–	2,792,554	–	2,792,554
Effect of share options exercised	–	–	–	(748,211)	748,211	–	–	–
Shares to be issued on Realm acquisition on conversion of exchangeable shares (note 24 and 26)	–	–	–	–	–	–	5,685,721	5,685,721
Shares issued to Realm shareholders on conversion of exchangeable shares	–	–	–	–	–	–	(3,162,540)	(3,162,540)
Total transactions with owners	17,558,811	31,302,005	–	2,044,343	748,211	51,653,370	2,523,181	54,176,551
Balance at 31 December 2011	**56,658,591**	**122,891,220**	**1,298,049**	**5,461,488**	**3,085,780**	**189,395,128**	**2,523,181**	**191,918,309**

The accompanying notes on pages 40-66 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisin Fanning
Director

Company statement of changes in equity

for the year ended 31 December 2011

	Share capital €	Share premium €	Shares to be issued €	Share based payment reserve €	Retained earnings €	Total equity €
2010						
Balance at 1 January 2010	16,059,196	23,976,523	–	2,321,035	(8,503,494)	33,853,260
Total comprehensive income for year						
Loss for the year	–	–	–	–	(2,737,221)	(2,737,221)
Total comprehensive income for year	–	–	–	–	(2,737,221)	(2,737,221)
Transactions with owners recognised directly in equity						
Contributions by and distributions to owners						
Issue of shares	19,533,715	55,313,322	–	–	–	74,847,037
Issue of shares related to business combinations (note 26)	3,463,832	12,203,515	–	–	–	15,667,347
Share options and warrants exercised	43,037	95,855	–	–	–	138,892
Share based payment (note 25)	–	–	–	1,133,534	–	1,133,534
Effect of share options exercised	–	–	–	(37,424)	37,424	–
Total transactions with owners	23,040,584	67,612,692	–	1,096,110	37,424	91,786,810
Balance at 31 December 2010	**39,099,780**	**91,589,215**	**–**	**3,417,145**	**(11,203,291)**	**122,902,849**
2011						
Balance at 1 January 2011	39,099,780	91,589,215	–	3,417,145	(11,203,291)	122,902,849
Total comprehensive income for year						
Loss for the year	–	–	–	–	(9,750,530)	(9,750,530)
Total comprehensive income for year	–	–	–	–	(9,750,530)	(9,750,530)
Transactions with owners recognised directly in equity						
Contributions by and distributions to owners						
Issue of shares related to business combinations (note 26)	15,352,623	26,926,235	–	–	–	42,278,858
Issue of shares (note 23)	1,542,267	3,938,527	–	–	–	5,480,794
Share options and warrants exercised (note 23)	663,921	437,243	–	–	–	1,101,164
Share based payment (note 25)	–	–	–	2,792,554	–	2,792,554
Effect of share options exercised	–	–	–	(748,211)	748,211	–
Shares to be issued on Realm acquisition on conversion of exchangeable shares (note 24 and 26)	–	–	5,685,721	–	–	5,685,721
Shares issued to Realm shareholders on conversion of exchangeable shares	–	–	(3,162,540)	–	–	(3,162,540)
Total transactions with owners	17,558,811	31,302,005	2,523,181	2,044,343	748,211	54,176,551
Balance at 31 December 2011	**56,658,591**	**122,891,220**	**2,523,181**	**5,461,488**	**(20,205,610)**	**167,328,870**

The accompanying notes on pages 40-66 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisin Fanning
Director

Consolidated statement of financial position
as at 31 December 2011

Assets	Note	2011 €	2010 €
Non-current assets			
Intangible assets	9	**140,263,276**	76,064,855
Equity accounted investments	10	**3,026,864**	–
Property, plant and equipment	11	**9,278,608**	2,398,186
Other non-current assets	12	**816,928**	–
Financial assets – net profit interest	14	**39,197,977**	–
		192,583,653	78,463,041
Current assets			
Inventory	15	**757,669**	–
Trade and other receivables	16	**8,064,400**	1,593,592
Other financial assets	17	**502,620**	1,491,802
Cash and cash equivalents	18	**26,197,963**	67,168,659
		35,522,652	70,254,053
Total assets		**228,106,305**	148,717,094
Equity and liabilities			
Equity			
Called up share capital	23	**56,658,591**	39,099,780
Share premium account	23	**122,891,220**	91,589,215
Share based payments reserve	24/25	**5,461,488**	3,417,145
Currency translation reserve	24	**1,298,049**	382,768
Retained profit/(loss)		**3,085,780**	(13,262,316)
Attributable to equity holders of the Group		**189,395,128**	121,226,592
Non-controlling interest	24	**2,523,181**	–
Total equity		**191,918,309**	121,226,592
Non-current liabilities			
Provisions	22	**5,345,211**	5,345,211
Loans and borrowings	21	**2,671,219**	7,886,287
Deferred tax liabilities	28	**9,329,447**	–
		17,345,877	13,231,498
Current liabilities			
Trade and other payables	19	**12,113,951**	5,759,517
Loans and borrowings	20	**5,177,144**	8,499,487
Provisions	22	**1,551,024**	–
		18,842,119	14,259,004
Total liabilities		**36,187,996**	27,490,502
Total equity and liabilities		**228,106,305**	148,717,094

The accompanying notes on pages 40-66 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisin Fanning
Director

Company statement of financial position

as at 31 December 2011

Assets	Note	2011 €	2010 €
Non-current assets			
Intangible assets	9	**–**	1,139,220
Property, plant and equipment	11	**5,948,287**	2,293,723
Financial assets – net profit interest	13	**94,813,932**	43,074,317
		100,762,219	46,507,260
Current assets			
Trade and other receivables	16	**63,853,304**	19,660,729
Cash and cash equivalents	18	**16,289,530**	66,580,026
		80,142,834	86,240,755
Total assets		**180,905,053**	132,748,015
Equity and liabilities			
Equity			
Called up share capital	23	**56,658,591**	39,099,780
Share premium account	23	**122,891,220**	91,589,215
Shares to be issued	24	**2,523,181**	–
Share based payments reserve	24/25	**5,461,488**	3,417,145
Retained loss		**(20,205,610)**	(11,203,291)
Attributable to equity holders		**167,328,870**	122,902,849
Non-current liabilities			
Loans and borrowings	21	**2,715,244**	–
		2,715,244	–
Current liabilities			
Trade and other payables	19	**6,034,203**	3,642,473
Loans and borrowings	20	**4,826,736**	6,202,693
		10,860,939	9,845,166
Total liabilities		**13,576,183**	9,845,166
Total equity and liabilities		**180,905,053**	132,748,015

The accompanying notes on pages 40-66 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisin Fanning
Director

Financial statements

Consolidated statement of cash flows

for the year ended 31st December 2011

	Note	2011 €	2010 €
Cash flows from operating activities			
Profit/(loss) before tax		**15,635,229**	(3,975,318)
Adjustments for:			
Depletion and depreciation	11	**522,726**	55,316
Loss on disposal of property, plant and equipment		**–**	5,089
Finance expense	4	**1,258,186**	1,414,193
Finance income	5	**(344,255)**	(8,825)
Share based payments charge		**866,038**	428,438
Foreign exchange		**(1,283,211)**	(6,624)
Gain on assignment of Barryroe licence	14	**(22,408,037)**	–
Exploration costs written-off		**2,684,290**	–
(Increase) in stocks		**(757,669)**	–
(Increase) in trade and other receivables		**(6,030,610)**	(760,769)
Increase in trade and other payables		**3,111,101**	891,230
Share of loss of equity-accounted investments	10	**4,715**	–
Tax paid		**(37,979)**	(2,870)
Net cash (used) in operating activities		**(6,779,476)**	(1,960,140)
Cash flows from investing activities			
Expenditure on exploration and evaluation assets		**(39,440,563)**	(10,190,443)
Joint venture partner share of exploration costs		**8,999,859**	2,879,848
Purchases of property, plant and equipment		**(7,353,565)**	(2,225,931)
Interest received		**318,206**	8,825
Net cash acquired with subsidiary	26	**5,216,546**	244,092
Release of bank guarantees		**941,883**	–
Net cash (used) in investing activities		**(31,317,634)**	(9,283,609)
Cash flows from financing activities			
Proceeds of issue of share capital, net of costs		**6,302,541**	75,140,429
Repayment of convertible loan		**(2,150,000)**	(600,000)
Proceeds from drawdown of other loans		**–**	2,343,321
Repayment of other loans		**(7,360,572)**	–
Interest paid		**(370,798)**	(520,566)
Net cash (used) in/generated from financing activities		**(3,578,829)**	76,363,184
Net (decrease)/increase in cash and cash equivalents		**(41,675,939)**	65,119,435
Effect of foreign exchange fluctuation on cash and cash equivalents		**705,243**	66,705
Cash and cash equivalents at start of year	18	**67,168,659**	1,982,519
Cash and cash equivalents at end of year	18	**26,197,963**	67,168,659

The accompanying notes on pages 40-66 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisin Fanning
Director

Company statement of cash flows

for the year ended 31st December 2011

	Note	2011 €	2010 €
Cash flows from operating activities			
Loss before tax		**(9,743,202)**	(2,736,164)
Adjustments for:			
Depletion and depreciation	11	**20,453**	8,660
Finance income		**(579,963)**	(7,869)
Finance expense		**1,221,245**	766,684
Share based payments charge		**743,415**	362,479
Foreign exchange		**1,170,301**	(45,053)
(Increase)/decrease in trade and other receivables		**(2,852,873)**	82,455
Increase in trade and other payables		**1,402,406**	1,748,855
Corporation tax		**(33,354)**	(1,141)
Net cash (used) in/generated from operating activities		**(8,651,572)**	178,906
Cash flows from investing activities			
Acquisition of exploration and evaluation assets		**(1,244,801)**	(876,955)
Acquisition of property, plant and equipment		**(3,624,440)**	(2,133,227)
Interest received		**289,028**	7,869
Advances to subsidiary companies		**(34,243,937)**	(8,287,297)
Payment to acquire financial assets		**(2,445,966)**	(443,768)
Net cash (used) in investing activities		**(41,270,116)**	(11,733,378)
Cash flows from financing activities			
Proceeds of issue of share capital, net of costs		**6,302,541**	75,140,429
Repayment of convertible loan		**(2,150,000)**	(600,000)
Drawdown of other loans		**–**	2,343,321
Repayment of other loans		**(3,956,014)**	–
Interest paid		**(1,206,364)**	(514,908)
Net cash (used) in/generated from financing activities		**(1,009,837)**	76,368,842
Net (decrease)/increase in cash and cash equivalents		**(50,931,525)**	64,814,370
Effect of foreign exchange fluctuation on cash and cash equivalents		**641,029**	45,053
Cash and cash equivalents at start of year	18	**66,580,026**	1,720,603
Cash and cash equivalents at end of year	18	**16,289,530**	66,580,026

Notes to financial statements
for the year ended 31 December 2011

1. Revenue and segmental information

Operating segment information is presented on the basis of the geographical areas as detailed below, which represent the financial basis by which the Group manages its operations. The Board of Directors, which has been recognised as the Chief Operating Decision Maker (CODM), regularly review internal management reports for each of the segments based on the below criteria which management consider to be appropriate in evaluating segment performance relative to other entities that operate in the industry.

	Poland		Morocco		Ireland	
	2011	2010	**2011**	2010	**2011**	2010
	€	€	**€**	€	**€**	€
Total revenue	**–**	–	**–**	–	**1,020,272**	580,873
Segment (loss)/profit before income tax	**(155,232)**	(4,832)	**(2,982)**	–	**23,295,137**	170,573
Exploration and evaluation assets*	**77,062,688**	6,160,076	**37,649,203**	30,468,535	**18,094,663**	29,524,104
Total segment assets	**84,805,769**	6,989,077	**45,202,516**	34,681,659	**59,379,779**	30,063,871
Capital expenditure^	**72,899,394**	3,442,135	**10,796,104**	4,676,618	**5,360,499**	29,500,805
Segment liabilities	**(13,530,479)**	(1,287,500)	**(748,228)**	(1,504,254)	**(6,850,789)**	(6,653,161)

* Includes equity accounted investments.
^ This is the net expenditure incurred by the Group excluding amounts incurred by partners on shared exploration interests. It includes assets acquired through business combinations.
Corporate includes head office balances and activities which are not directly attributable to any other segment.

Revenue relates to the Group's share of the sale of gas to one customer in the Republic of Ireland from the Seven Heads Gas Field and residual royalty income from leasehold interests in the USA.

Albania has been designated as an operating segment in the current year due to its emergence as a core exploration area for the Group.

2. Other income

Group	**2011 €**	2010 €
Assignment of Rockall Licence	**3,492,433**	–
Assignment of Barryroe licence (note 14)	**22,408,037**	–
Baltic Basin joint arrangement fee	**–**	1,500,000
Proceeds from sale of seismic data (North America)	**87,590**	–
Other	**2,144**	1,100
	25,990,204	1,501,100

In February 2011, OMV (Ireland) Killala Exploration GmbH ("OMV") paid £3 million to San Leon Energy after its removal from the Irish Continental Shelf Petroleum Exploration licence No.3/05 (the Rockall licence). OMV assigned its 50% interest in the licence to San Leon Energy such that San Leon Energy now holds a 100% interest in this licence.

In March 2010, San Leon Energy received proceeds of €1,500,000 under the terms of the joint arrangement entered into with Talisman Energy Inc. over the Group's exploration concessions in the Baltic Basin, Poland.

Holland		Albania		Other areas		Corporate		Total	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
€	€	**€**	€	**€**	€	**€**	€	**€**	€
–	–	**–**	–	**19,382**	11,174	**–**	–	**1,039,654**	592,047
(648)	(27,229)	**(361)**	–	**(2,840,118)**	(603,300)	**(4,660,567)**	(3,510,530)	**15,635,229**	(3,975,318)
4,561,202	4,561,202	**3,580,258**	480,303	**2,342,126**	4,870,635	**–**	–	**143,290,140**	76,064,855
4,561,202	4,561,202	**3,600,284**	480,303	**3,312,038**	5,027,132	**27,244,717**	66,913,850	**228,106,305**	148,717,094
–	3,607,326	**3,099,955**	480,303	**192,682**	449,867	**56,730**	7,970	**92,405,364**	42,165,024
–	(1,496,782)	**(26,637)**	(98,508)	**(73,945)**	(102,161)	**(14,957,918)**	(16,348,136)	**(36,187,996)**	(27,490,502)

3. Statutory information

(a) Group

	2011	2010
	€	€
The profit/(loss) for the financial year is stated after charging/(crediting):		
Depreciation of property, plant and equipment	**83,272**	55,316
(Profit) on foreign currencies	**(477,967)**	(239,517)
Operating lease rentals		
– Premises	**529,168**	345,012
– Motor vehicles	**58,793**	6,742
Pre-licence expenditure	**294,288**	117,298
Acquisition costs of Realm Energy International Corporation	**2,433,665**	–
Acquisition costs of Island Oil and Gas Plc	**–**	481,192

3. Statutory information continued

(b) During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG, the Group Auditor:

	2011 €	2010 €
Audit Services		
Group Auditor – KPMG Ireland	**50,000**	40,000
Tax and non-assurance services		
Group Auditor – KPMG Ireland	**–**	–
Other network firm – KPMG	**11,525**	–
	11,525	–
Total		
Group Auditor – KPMG Ireland	**50,000**	40,000
Other network firm – KPMG	**11,525**	–
	61,525	40,000

Tax and non-assurance services relates to accounting, administration and tax compliance work in Spain and Poland.

(c) Company

	2011 €	2010 €
The loss for the financial year is stated after charging/(crediting):		
Depreciation of property, plant and equipment	**20,453**	8,660
Loss/(profit) on foreign currencies	**1,314,007**	(112,031)
Operating lease rentals – premises	**450,549**	345,012
Auditor's remuneration – audit services	**25,000**	20,000
Auditor's remuneration – other services	**–**	–
Pre-licence expenditure	**294,288**	117,298

As permitted by Section 148 (8) of the Companies Act 1963, the Company Statement of Comprehensive Income has not been separately disclosed in these financial statements. A loss of €9,750,530 (2010: loss of €2,737,221) has been dealt with in the parent Company.

4. Finance expenses

	2011 €	2010 €
On loans and overdraft	**1,072,118**	1,177,298
Finance arrangement costs	**186,068**	236,895
	1,258,186	1,414,193

5. Finance income

	2011 €	2010 €
Deposit interest received	**344,255**	8,825

6. Personnel expenses

Number of employees
The average monthly number of employees (including the Directors) during the year was:

	2011 Number	2010 Number
Directors	**5**	5
Administration	**10**	3
Technical	**16**	5
	31	13

Employment costs (including Directors)

	2011 €	2010 €
Wages and salaries (excluding Directors)	**1,419,647**	619,816
Directors' salaries and pension	**2,328,361**	2,043,294
Social welfare costs	**151,496**	98,342
Directors' fees	**564,922**	361,562
Share based payments (including Directors)	**2,432,218**	829,241
	6,896,644	3,952,255

Details of the Directors' remuneration is set out in the Directors' Report.

During the year, €5,172,921 (2010: €2,771,790) was capitalised in exploration and evaluation assets in respect of Group employment costs above including €1,926,516 (2010: €563,872) in respect of share based payments.

The Group contributes to a defined contribution pension scheme for certain executives and employees. The scheme is administered by trustees and is independent of the Group finances. Total contributions by the Group to the pension scheme included in Directors' remuneration amounted to €178,000 (2010: €98,000).

7. Income tax expense

	2011 €	2010 €
Current tax		
Current year income tax expense	**35,344**	1,057
Deferred tax		
Origination and reversal of temporary differences	**11,222,410**	–
Recognition of previously unrecognised tax losses	**(11,222,410)**	–
Total income tax expense	**35,344**	1,057

The difference between the total tax shown above and the amount calculated by applying the applicable standard rate of Irish corporation tax to the profit/(loss) before tax is as follows:

	2011 €	2010 €
Profit/(loss) before income tax	**15,635,229**	(3,975,318)
Tax on profit/(loss) at applicable Irish corporation tax rate of 25% (2010: 25%)	**3,908,807**	(993,830)
Effects of:		
Income not taxable	**(5,602,009)**	–
Expenses not deductible	**1,382,884**	470,471
Losses utilised in the year	**(1,004,013)**	(176,273)
Income Tax Withheld	**6,198**	1,057
Excess losses carried forward	**1,343,477**	699,632
Tax charge for the year	**35,344**	1,057

8. Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year as follows:

	2011 €	2010 €
Profit/(loss) for the year	**15,599,885**	(3,976,375)

The weighted average number of shares in issue is calculated as follows:

	Number of shares	Number of shares
In issue at start of year	**781,995,611**	321,183,913
Effect of shares issued related to a business combination (note 26)	**41,191,907**	42,073,596
Effect of share options and warrants exercised	**7,632,018**	173,590
Effect of shares issued in the year	**14,137,446**	24,914,412
Weighted average number of ordinary shares in issue (basic)	**844,956,982**	388,345,511
Basic earnings/(loss) per ordinary share (cent)	**1.85**	(1.02)

Diluted earnings per share
Diluted earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding after adjustment for effects of all dilutive potential ordinary shares as follows:

	2011 €	2010 €
Profit/(loss) for the year (diluted)	**15,599,885**	(3,976,375)

The diluted weighted average number of shares in issue is calculated as follows:

	Number of shares	Number of shares
Basic weighted average number of shares in issue during the year	**844,956,982**	388,345,511
Effect of share options and warrants in issue	**33,784,071**	–
Effect of exchangeable shares	**5,075,248**	–
	883,816,301	388,345,511
Diluted earnings/(loss) per ordinary share (cent)	**1.77**	(1.02)

At 31 December 2010, 128,063,792 options and potential ordinary shares were excluded from the weighted average number of ordinary shares calculation for diluted earnings per share as their effect would have been anti-dilutive.

The average market value of the Company’s shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

9. Intangible assets

Group	Exploration and evaluation assets €	Royalty interests €	Total €
Cost and net book value			
At 1 January 2010	35,535,470	943,030	36,478,500
Additions	7,658,282	778,236	8,436,518
Acquisitions through business combinations (note 26)	28,518,530	2,829,090	31,347,620
Exchange rate adjustment	142,918	10,846	153,764
Reclassification from plant and equipment (note 11)	42,961	–	42,961
Reclassification to other financial assets (note 17)	(394,508)	–	(394,508)
At 31 December 2010	**71,503,653**	**4,561,202**	**76,064,855**
Additions (iii)	32,311,681	–	32,311,681
Acquisitions through business combinations (note 26)	49,804,747	–	49,804,747
Exchange rate adjustment	1,556,223	–	1,556,223
Assignment of Barryroe licence interest (note 14)	(16,789,940)	–	(16,789,940)
Write-off of USA exploration assets (i)	(2,684,290)	–	(2,684,290)
At 31 December 2011	**135,702,074**	**4,561,202**	**140,263,276**

Company	Exploration and evaluation assets €
Cost and net book value	
At 1 January 2010	224,035
Additions	915,185
At 31 December 2010	1,139,220
Additions	1,244,801
Transfer to subsidiary (ii)	(2,384,021)
At 31 December 2011	**–**

An analysis of intangible assets by geographical area is set out in note 1.

(i) The Group's exploration interests in the USA were relinquished during the year following a strategic review of these assets which concluded that no further investment in these non-core assets was appropriate. This resulted in the write-off of €2.6 million of accumulated exploration costs. No capital expenditure was incurred on these assets in 2011 and the write-off had no cash impact on results for the year.

(ii) The transfer of costs to subsidiary relates to costs paid by San Leon Energy to acquire an interest in the Szczecinek Licence, Poland which have been transferred in accordance with the joint arrangement entered into by the Group on this licence.

(iii) This is the net amounts incurred by San Leon Energy and excludes amounts attributable to joint operating partners of €8.99m (2010: €2.88m).

The Directors have considered the carrying value at 31 December 2011 of capitalised costs in respect of its exploration and evaluation assets. These assets have been assessed for impairment and in particular with regard to remaining licence terms, likelihood of licence renewal, likelihood of further expenditures and ongoing appraisals for each area, as described in the Chairman's Review. Based on internal valuations, the Directors are satisfied that there are no indicators of impairment but recognise that future realisation of these oil and gas interests is dependent on future successful exploration and appraisal activities and subsequent production of oil and gas reserves.

10. Equity accounted investments

Group	2011 €	2010 €
At 1 January	**–**	–
Acquisitions through business combinations (note 26)	**2,883,863**	–
Exchange rate adjustment	**147,716**	–
Share of loss of equity-accounted investments	**(4,715)**	–
At 31 December	**3,026,864**	–

As part of the acquisition of Realm Energy International Corporation, San Leon Energy acquired a 50% equity interest in each of Joyce Investments Sp. Zoo and Maryani Investments Sp. Zoo, who in turn hold 100% interests in the Ilawa and Wegrow exploration concessions in Poland.

The registered office of both entities is Al. Jerozolimskie 56C, 00-803 Warsaw and their reporting date is 31 December.

The assets and liabilities and loss for the year of the Group's equity accounted investments was as follows:

	Joyce Investments €	Maryani Investments €	Total €
Non-current assets	8,649	116,035	124,684
Current assets	16,205	14,067	30,272
Current liabilities	(2,842)	(60,402)	(63,244)
Non-current liabilities	(82,232)	(126,817)	(209,049)
Net liabilities	(60,220)	(57,117)	(117,337)
Group share of net liabilities	(30,110)	(28,559)	(58,669)
Fair value adjustment on acquisition			2,842,250
Exchange adjustment and advances to entities			243,283
Group carrying value at reporting date			**3,026,864**
Loss for the year	(48,903)	(46,024)	(94,927)
Group share of loss for the year (post-acquisition)	(2,429)	(2,286)	(4,715)

11. Property, plant and equipment

Group	Plant & equipment €	Asset under construction €	Office equipment €	Motor vehicles €	Total €
Cost					
At 1 January 2010	–	–	197,707	25,903	223,610
Additions	78,692	2,280,211	21,983	–	2,380,886
Exchange rate adjustment	–	–	640	1,792	2,432
Reclassification to exploration and evaluation assets	–	–	(111,140)	–	(111,140)
Disposals	–	–	(19,197)	–	(19,197)
At 31 December 2010	78,692	2,280,211	89,993	27,695	2,476,591
Additions	3,305,845	3,615,436	283,115	200,677	7,405,073
Exchange rate adjustment	2,573	–	(1,680)	(3,001)	(2,108)
At 31 December 2011	3,387,110	5,895,647	371,428	225,371	9,879,556
Depreciation					
At 1 January 2010	–	–	104,066	894	104,960
Disposals	–	–	(14,108)	–	(14,108)
Exchange rate adjustment	–	–	387	29	416
Reclassification to exploration and evaluation assets	–	–	(68,179)	–	(68,179)
Charge for the year	26,230	–	23,547	5,539	55,316
At 31 December 2010	26,230	–	45,713	6,462	78,405
Exchange rate adjustment	858	–	(341)	(700)	(183)
Charge for the year	374,856	–	132,185	15,685	522,726
At 31 December 2011	401,944	–	177,557	21,447	600,948
Net book values					
At 31 December 2011	**2,985,166**	**5,895,647**	**193,871**	**203,924**	**9,278,608**
At 31 December 2010	52,462	2,280,211	44,280	21,233	2,398,186

Assets under construction relate to the Company's Oil Shale Project in Morocco.

11. Property, plant and equipment continued

Company	Asset under construction €	Office equipment €	Total €
Cost			
At 1 January 2010	–	26,671	26,671
Additions	2,280,211	7,971	2,288,182
At 31 December 2010	2,280,211	34,642	2,314,853
Additions	3,619,174	55,843	3,675,017
At 31 December 2011	5,899,385	90,485	5,989,870
Depreciation			
At 1 January 2010	–	12,470	12,470
Charge for the year	–	8,660	8,660
At 31 December 2010	–	21,130	21,130
Charge for the year	–	20,453	20,453
At 31 December 2011	–	41,583	41,583
Net book values			
At 31 December 2011	**5,899,385**	**48,902**	**5,948,287**
At 31 December 2010	2,280,211	13,512	2,293,723

12. Other non-current assets

	Group 2011 €	Group 2010 €	**Company 2011 €**	Company 2010 €
Deposits on Spanish oil and gas concession applications	**734,372**	–	**–**	–
Deposits on Spanish oil and gas concessions	**82,556**	–	**–**	–
	816,928	–	**–**	–

The deposits paid are recoverable on completion of work programmes attached to each of the concessions.

13. Financial assets

Company	**2011 €**	2010 €
Investment in subsidiary undertakings at cost:		
Balance at beginning of year	**43,074,317**	27,064,293
Additions (i)	**49,741,051**	14,832,565
Increase in carrying value of San Leon (Netherlands) Ltd (ii)	**–**	778,236
Capital contribution in respect of share options	**1,998,564**	399,223
Balance at end of year	**94,813,932**	43,074,317

(i) During the year, the Company issued shares and contributed these to a subsidiary to enable it to purchase the entire share capital of Realm Energy International Corporation for a consideration of €49,741,051 (including acquisition costs of €2,433,665). Further details of the acquisition and attributable fair value are set out in note 26.

(ii) The carrying value of the investment in San Leon (Netherlands) Ltd increased by €778,236 as a result of finalising the amount payable to Philip Thompson in respect of the contingent consideration payable on this acquisition.

13. Financial assets continued

At 31 December 2011, the Company had the following principal subsidiaries, all of which are wholly owned:

Name	Registered Office
Directly held:	
Island Oil & Gas Limited	1st Floor, Wilton House, Wilton Place, Dublin 2
San Leon (Poland) SP. Zoo	ul. Mokotowska 1, 00-640 Warsaw, Poland
San Leon (USA) Limited	1st Floor, Wilton House, Wilton Place, Dublin 2
San Leon (Morocco) Limited	PO Box 146, Trident Chambers, Tortola, BVI
San Leon (Netherlands) Limited	PO Box 146, Trident Chambers, Tortola, BVI
San Leon Italy Srl	Piazza Vescovio, 700199 Rome, Italy
San Leon Services Limited	12 Castle Street, St. Helier, Jersey JE2 3RT
Gold Point Energy Corp.	Suite 700, 625 Howe Street, Vancouver, B.C. V6C 2T6
San Leon Energy USA Inc.	600 17th St. Suite 2800 South Tower, Denver, CO 80202, USA
0921642 B.C. Unlimited Liability Company	Suite 1700, Park Place, 666 Burrard Street, Vancouver BC V6C 2X8
Indirectly held:	
Liesa Investments SP. Zoo	ul. Mokotowska 1, 00-640 Warsaw, Poland
Oculis Investments SP. Zoo	ul. Mokotowska 1, 00-640 Warsaw, Poland
Vabush Investments SP. Zoo	ul. Mokotowska 1, 00-640 Warsaw, Poland
Gora Energy Resources Sp. Zoo	ul. Mokotowska 1, 00-640 Warsaw, Poland
Novaseis Sp. Zoo	ul. Mokotowska 1, 00-640 Warsaw, Poland
Helland Investments Sp. Zoo	ul. Mokotowska 1, 00-640 Warsaw, Poland
Horacio Investments Sp. Zoo	ul. Mokotowska 1, 00-640 Warsaw, Poland
Island Expro Limited	1st Floor, Wilton House, Wilton Place, Dublin 2
Island Assets Porcupine Limited	1st Floor, Wilton House, Wilton Place, Dublin 2
Island (Seven Heads) Limited	1st Floor, Wilton House, Wilton Place, Dublin 2
Island Rockall JV Limited	1st Floor, Wilton House, Wilton Place, Dublin 2
San Leon Energy B.V. (formerly Island Oil and Gas BV)	2317 KJ Leiden, Satijnvlinder, The Netherlands
San Leon Durresi B.V. (formerly Island International Exploration BV)	2317 KJ Leiden, Satijnvlinder, The Netherlands
San Leon Morocco B.V.	2317 KJ Leiden, Satijnvlinder, The Netherlands
San Leon Offshore Morocco B.V.	2317 KJ Leiden, Satijnvlinder, The Netherlands
San Leon Tarfaya Shale B.V.	2317 KJ Leiden, Satijnvlinder, The Netherlands
Seisquest B.V.	2317 KJ Leiden, Satijnvlinder, The Netherlands
San Leon Adriatiku B.V.	2317 KJ Leiden, Satijnvlinder, The Netherlands
San Leon Canada Limited (formerly Realm Energy International Corporation)	Suite 1700, Park Place, 666 Burrard Street, Vancouver BC V6C 2X8
Realm Energy Operations Corporation	Suite 1700, Park Place, 666 Burrard Street, Vancouver BC V6C 2X8
Realm Energy Operations Corporation	Walkers Chambers, 171 Main Street, Road Town, Tortola, BVI
Realm Energy International Co-op	2317 KJ Leiden, Satijnvlinder, The Netherlands
Realm Energy International Holding B.V.	2317 KJ Leiden, Satijnvlinder, The Netherlands
Realm Energy European Investments B.V.	2317 KJ Leiden, Satijnvlinder, The Netherlands
Frontera Energy Corporation S.L.	Paseo de la Castellanna, 95, 28046 Madrid, Spain

The principal activity of all of the above companies is oil and gas exploration with the exception of San Leon Services Limited and San Leon (Poland) SP. Zoo which provide employment and administrative services to the Group.

14. Financial assets – net profit interest

	Group 2011 €	Group 2010 €	Company 2011 €	Company 2010 €
Barryroe 4.5% net profit interest	**39,197,977**	–	**–**	–
	39,197,977	–	**–**	–

In December 2011, San Leon Energy assigned its 30% working interest in Standard Exploration Licence 1/11 ("Licence" or "Barryroe") in the Celtic Sea, Ireland to Providence Resources Plc ("Providence") in exchange for a 4.5% Net profit interest ("NPI") on the full field. Under the terms of the arrangement, San Leon Energy will not pay any further appraisal or development costs on the Licence.

The Directors have estimated the fair value of this NPI based on a technical evaluation of the licence area and with reference to a third party evaluation report prepared by RPS Energy in February 2011 for Lansdowne Oil & Gas plc, which estimated the net present value of 100% of the licence at US$1.14 billion on P50 case and NPV at 10% discount rate. Having considered all available data on the underlying licence area including drilling and well test results subsequently announced by the licence operator (Providence), in the opinion of the Directors, the recoverable amount of the NPI is not less than this estimated fair value.

The directors recognise that future realisation of the carrying value of the net profit interest is dependent on future successful exploration and appraisal activities by the operator and subsequent production of oil reserves.

15. Inventories

	Group 2011 €	Group 2010 €	Company 2011 €	Company 2010 €
Spare parts and consumables	**757,669**	–	**–**	–
	757,669	–	**–**	–

Spare parts includes drilling equipment and consumables utilised by the Group's seismic services company.

16. Trade and other receivables

	Group 2011 €	Group 2010 €	Company 2011 €	Company 2010 €
Amounts falling due within one year:				
Trade receivables from joint operating partners	**1,318,341**	62,999	**38,148**	–
Amounts owed by Group undertakings	**–**	–	**60,791,809**	19,501,548
VAT and other taxes refundable	**2,075,922**	138,529	**41,400**	71,773
Other debtors	**1,458,196**	151,084	**976,229**	22,861
Director loan (note 29)	**1,932,488**	–	**1,932,488**	–
Prepayments and accrued income	**1,279,453**	1,240,980	**73,230**	64,547
	8,064,400	1,593,592	**63,853,304**	19,660,729

17. Other financial assets

	Group 2011 €	Group 2010 €	Company 2011 €	Company 2010 €
Restricted cash at bank	**502,620**	1,491,802	**–**	–
	502,620	1,491,802	**–**	–

Restricted cash at bank relates to deposit accounts held in support of bank guarantees required under the Moroccan exploration licences held by the Group. Guarantees held in relation to Tarfaya, Sidi Moussa and Foum Draa licences have been released on completion of the work programme for the current phase of the exploration licences.

18. Cash and cash equivalents

	Group 2011 €	Group 2010 €	Company 2011 €	Company 2010 €
Cash at bank	**26,197,963**	67,168,659	**16,289,530**	66,580,026
	26,197,963	67,168,659	**16,289,530**	66,580,026

19. Trade and other payables

	Group 2011 €	Group 2010 €	Company 2011 €	Company 2010 €
Current				
Trade payables	**6,135,572**	2,119,563	**1,163,569**	599,396
Amounts owed to Group undertaking	**–**	–	**543,352**	1,779,903
Corporation tax	**–**	4,376	**–**	2,635
PAYE/PRSI	**154,389**	301,250	**69,690**	262,369
Other creditors	**290,336**	268,171	**1,416**	113,548
Contingent consideration (note 26)	**2,213,629**	–	**2,213,629**	–
Accruals and deferred income	**3,320,025**	3,066,157	**2,042,547**	884,622
	12,113,951	5,759,517	**6,034,203**	3,642,473

20. Loans and borrowings

	Group 2011 €	Group 2010 €	Company 2011 €	Company 2010 €
Current				
Convertible loan (i)	**–**	2,150,000	**–**	2,150,000
Other loans (ii)	**350,785**	2,555,911	**–**	2,555,911
Amounts due to Mr. Philip Thompson (iii)	**–**	1,496,782	**–**	1,496,782
Delta Hydrocarbons B.V. (iv)	**4,826,359**	2,296,794	**–**	–
Amounts due to group undertakings	**–**	–	**4,826,736**	–
	5,177,144	8,499,487	**4,826,736**	6,202,693

(i) The convertible loan was repaid in full in cash in February 2011. No conversion notice was issued by the loan note holder. The conversion feature was not considered material.

(ii) Other loans relates to an amount of US$420,000 advanced to Island Oil and Gas Plc by Longreach Oil & Gas Ventures Limited. The loan was interest free and repaid in full subsequent to year end.

(iii) The amounts due to Philip Thompson related to consideration due for the acquisition of his shares in San Leon (Netherlands) Limited.

(iv) The Delta Hydrocarbons BV ("Delta") loan was acquired as part of the acquisition of Island Oil and Gas Plc ("Island") and relates to a loan of US$10 million advanced by Delta to Island in May 2008.

This loan was intended to be repaid from the proceeds of an Overriding Royalty Interest ("ORI") granted to Island Oil and Gas BV of 2.5% of the gross export production from the Amstel Field and 2% and 1.5% respectively of the gross export production from the Zaan Oil Field and any tie backs via the Amstel facilities. Notwithstanding that production has not commenced, Delta exercised its right to call for repayment of the loan, and it is being repaid by instalment over a 30 month period from April 2011. The interest rate is 12% per annum.

21. Loans and borrowings

	Group 2011 €	Group 2010 €	Company 2011 €	Company 2010 €
Non-current				
Other loans	**–**	339,680	**–**	–
Delta Hydrocarbons B.V.	**2,671,219**	7,546,607	**–**	–
Amounts due to Group undertakings	**–**	–	**2,715,244**	–
	2,671,219	7,886,287	**2,715,244**	–

22. Provisions for liabilities

Group	Decommissioning costs €	Other €	Total €
At 1 January 2011	5,345,211	–	5,345,211
Arising on business combination (note 26)	–	1,475,438	1,475,438
Exchange rate adjustment	–	75,586	75,586
At 31 December 2011	**5,345,211**	**1,551,024**	**6,896,235**
Current	–	1,551,024	1,551,024
Non-current	5,345,211	–	5,345,211

Decommissioning costs
The decommissioning costs relate to the fair value of the provision for decommissioning of the Seven Heads gas field and abandonment costs of three other exploration wells in the Celtic Sea at the acquisition of Island Oil and Gas Plc. The fair value has been determined based on independent third party reports prepared. The timing of decommissioning is dependant on the timing of cessation of production in the Seven Heads gas field, which is currently expected to continue production until 2013.

Other provision
Certain Realm Energy International Corporation shareholders exercised rights of dissent under Canadian law not to accept the terms of acquisition (note 26). Under Canadian law, these dissenting shareholders are eligible to receive a cash payment equal to the fair value of their shareholding at acquisition. The provision represents the Directors' estimate of the cash consideration to be paid to those shareholders taking account of the market price of the Realm shares at acquisition.

23. Share capital – Group and Company

	2011 €	2010 €
Authorised		
1,500,000,000 Ordinary Shares of €0.05 each	**75,000,000**	75,000,000
	75,000,000	75,000,000

Issued, called up and fully paid:

	Number of Ordinary Shares	Share capital €	Share premium €
At 1 January 2011	781,995,611	39,099,780	91,589,215
Issued in year	351,176,202	17,558,811	31,718,824
Share issue costs	–	–	(416,819)
At 31 December 2011	1,133,171,813	56,658,591	122,891,220

On 20 January 2011, the Company issued 89,773 €0.05 Ordinary Shares at £0.11 and 1,425,000 €0.05 Ordinary Shares at £0.15 in respect of the exercise of warrants.

On 7 February 2011, the Company issued 363,600 €0.05 Ordinary Shares at £0.11 in respect of the exercise of warrants and 2,000,000 €0.05 Ordinary Shares at par in respect of the exercise of options.

On 15 March 2011, the Company issued 3,285,727 €0.05 Ordinary Shares at £0.11 in respect of the exercise of warrants.

23. Share capital – Group and Company continued

On 3 May 2011, the Company issued 71,818 €0.05 Ordinary Shares at £0.11 in respect of the exercise of warrants.

On 26 May 2011, the Company issued 2,000,000 €0.05 Ordinary Shares at par in respect of the exercise of options.

On 13 July 2011, the Company issued 30,633,092 €0.05 Ordinary Shares at £0.15 and 212,244 €0.05 Ordinary Shares at £0.264 in accordance with the services agreement entered into with PGS Ventures AS.

On 10 November 2011, the Company issued 284,084,336 €0.05 Ordinary Shares at £0.1175 as part consideration for the acquisition of Realm Energy International Corporation. See note 26 for further details.

On 29 November 2011, the Company issued 1,914,000 €0.05 Ordinary Shares at CAD$0.106 in respect of the exercise of options.

On 6 December 2011, the Company issued 82,500 €0.05 Ordinary Shares at CAD$0.121 in respect of the exercise of warrants.

On 9 December 2011, the Company issued 1,386,000 €0.05 Ordinary Shares at CAD$0.106 in respect of the exercise of options.

On 13 December, the Company issued 660,000 €0.05 Ordinary Shares at par in respect of the exercise of options.

In December 2011, the Company issued 22,968,112 €0.05 Ordinary Shares at £0.1175 in relation to conversion notices issued by the holders of exchangeable shares issued under the terms of the acquisition of Realm Energy International Corporation.

24. Reserves and non-controlling interest

The Statement of Changes in Equity outlines the movement in reserves during the year. Further details of these reserves are set out below:

Currency translation reserve
The currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Share based payments reserve
The share based payments reserve comprises the fair value of all share options which have been charged over the vesting period.

Non-controlling interest
The non-controlling interest relates to shares to be issued by San Leon Energy plc to the holders of exchangeable shares issued as part consideration for the acquisition of Realm Energy International Corporation (see note 26). The exchangeable shares do not have any voting or dividend rights and are exchangeable on a one for one basis into ordinary shares of San Leon Energy plc.

25. Share based payments

The Group has one share based payment scheme for executives and senior employees of the Group. In accordance with the provisions of the plan, as approved by shareholders at a previous general meeting, executives and senior employees may be granted options to purchase ordinary shares.

Each share option converts into one ordinary share of San Leon Energy plc on exercise and options do not carry rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The options vest in tranches subject to the achievement of certain service and non-market performance conditions. Market conditions in relation to the achievement of share price trading levels also apply in the case of certain options granted to the Directors, further details of which are set out in the Directors' Report.

The Group's share options are equity settled share based payments as defined in IFRS 2: Share Based Payments. The total share based payment charge for the year has been calculated based on grant date fair value obtained using an option pricing model with a discount for market conditions applied based on a Monte Carlo simulator analysis where appropriate. The charge for the year is €2,792,554 (2010: €1,133,534).

The movement on outstanding share options and warrants during the year was as follows:

	2011		2010	
	Number of options/ warrants	**Weighted average exercise price**	Number of options/ warrants	Weighted average exercise price
Balance at beginning of the financial year	**122,688,792**	**£0.201**	93,100,509	£0.17
Granted during the year	**40,910,000**	**£0.165**	30,538,793	£0.292
Option and warrant obligations assumed on Realm acquisition (note 26)	**114,349,398**	**£0.182**	–	–
Forfeited during the financial year	**(500,000)**	**£0.370**	–	–
Exercised during the financial year	**(13,188,645)**	**£0.099**	(950,510)	£0.138
Expired during the financial year	**(17,325,000)**	**£0.131**	–	–
Balance at end of the financial year	**246,934,545**	**£0.189**	122,688,792	£0.201
Exercisable at end of the financial year	**198,774,545**	**£0.175**	99,288,792	£0.173

The range of exercise prices of outstanding options/warrants at year end is £0.043-£0.40 (2010: £0.043-£0.40).

The weighted average remaining contractual life for options/warrants outstanding at 31 December 2011 is 3.03 years (2010: 4.22 years).

The weighted average share price of exercised options/warrants at the date of exercise during the year ended 31 December 2011 was £0.257 (2010: £0.239).

25. Share based payments continued

The following table lists the inputs to the models used to calculate the grant date fair values of awards granted in 2011 and 2010:

	2011	2010
Weighted average fair value of options granted during year	**£0.046**	£0.078
Weighted average share price of options at date of grant	**£0.135**	£0.158
Dividend yield	**0%**	0%
Expected volatility	**70%**	70%
Risk-free interest rate	**1.2%-2.6%**	1.4%-2.3%
Expected option life	**7-10 years**	7 years
Expected early exercise %	**10%**	10%
Model used	**Binomial/Monte Carlo**	Binomial/Monte Carlo

The expected life used in the model is based on the expectation of management including the probability of meeting market conditions (where applicable) attaching to the option and behavioural considerations and is not necessarily indicative of exercise patterns that may occur. Expected volatility is based on an analysis of the historical volatility of San Leon Energy plc shares and comparable listed entities. The fair value is measured at the date of grant.

26. Acquisition of subsidiaries

Year ended 31 December 2011 – Realm Energy International Corporation acquisition
San Leon Energy plc acquired 100% of Realm Energy International Corporation ("Realm"), a Canadian registered company, on 10 November 2011 for €58.83 million. Realm was listed on the Toronto Stock Exchange, with exploration assets based predominantly in Poland. It also had licence applications pending in Spain and France.

The Board of Directors of San Leon Energy believes that the acquisition of Realm brings together two complementary portfolios which will significantly increase San Leon Energy's shale acreage positions in Poland's Baltic Basin and provide access to new shale gas areas in Spain, Germany and France which strengthens its position as one of the leading shale gas operators in Europe. It is expected that the enlarged Group will benefit from its combined operational and technical expertise as well as in-country experience in order to accelerate work programmes and de-risk the acreage. The combined position in Poland is also expected to provide cost synergies for the Group's work programmes in Poland. The increased focus on shale by San Leon Energy may be further enhanced through the addition of any successful licence applications that Realm has submitted in Spain and France.

Under the terms of the acquisition, each Realm shareholder received, for each Realm share, at such shareholder's election: i) C$1.30 in cash; or ii) 3.30 Ordinary Shares in the capital of San Leon Energy plc (or the same number of exchangeable shares of an indirect Canadian subsidiary of San Leon Energy exchangeable on a one-for-one basis directly for Ordinary Shares in the capital of San Leon Energy, subject to adjustment); or iii) a combination thereof; subject to a maximum of C$17.7 million in cash (subject to adjustment) being paid to Realm shareholders in aggregate. The acquisition was implemented by means of a Canadian plan of arrangement which was effective 10 November 2011. A copy of the circular to Realm shareholders containing full details of the scheme of arrangement is available on the San Leon Energy website.

The fair values of the assets and liabilities acquired as detailed below have been calculated on a provisional basis and any amendment to these acquisition fair values within the 12-month period post acquisition will be provided for in the 2012 financial period in accordance with the provisions of IFRS 3: Business Combinations.

26. Acquisition of subsidiaries continued

	Acquisition book value €	Fair value adjustment €	Acquisition fair value €
Exploration and evaluation assets	707,485	49,097,262	49,804,747
Other non-current assets (Licence and application deposits)	812,276	–	812,276
Equity accounted investments	41,613	2,842,250	2,883,863
Current assets excluding cash and cash equivalents	414,948	–	414,948
Cash and cash equivalents	15,278,992	–	15,278,992
Trade and other payables	(1,032,413)	–	(1,032,413)
Deferred tax	–	(9,329,447)	(9,329,447)
Net assets acquired	16,222,901	42,610,065	58,832,966
Consideration paid:			
Issue of Ordinary Shares of San Leon Energy			39,116,317
Issue of exchangeable shares (iv)			5,685,721
Cash paid			10,062,446
Contingent cash consideration due to dissenting shareholders (i)			1,475,438
Contingent consideration on the fair value of Realm warrant and option obligations assumed by San Leon Energy (ii)			2,493,044
Total consideration (iii)			58,832,966

(i) Certain Realm shareholders exercised rights of dissent under Canadian law not to accept the terms of acquisition. The contingent consideration represents the Directors' estimate of the contingent cash consideration to be paid to those shareholders.

(ii) Under the terms of the acquisition, outstanding options and warrants to acquire shares in Realm Energy were changed to allow holders of these options and warrants to acquire San Leon Energy shares on the acquisition date. The fair value of these options and warrants is recognised as contingent consideration payable on the acquisition. The fair value is calculated using the Black Scholes model and assumptions consistent with those used in calculating the fair value of share based payments as outlined in note 25.

(iii) Excludes acquisition costs of €2,433,665 which have been included in administration expenses in the consolidated income statement for the year.

(iv) In the period from the date of acquisition to 31 December 2011, £3,162,540 of the exchangeable shares were converted to ordinary shares of San Leon Energy by former Realm shareholders.

	€
Net cash flow arising on acquisition	
Cash acquired with subsidiary	15,278,992
Cash consideration paid	(10,062,446)
	5,216,546

Realm has contributed a loss of €373,543 to the Group results for the year ended 31 December 2011. The acquisition would have contributed an estimated €3.4 million to operating losses for the year ended 31 December 2011 if it had been acquired at 1 January 2011.

26. Acquisition of subsidiaries continued

Year ended 31 December 2010 – Island Oil & Gas Plc acquisition
San Leon Energy plc acquired 100% of Island Oil and Gas Plc ("Island"), an Irish registered company, on 10 May 2010 for €14.35 million. Island was an AIM listed oil and gas company with exploration and production assets predominantly in Ireland and Morocco.

The Island acquisition is directly in line with the Group's strategy to develop a diverse portfolio of high potential exploration and production assets. The Board believes that there is compelling strategic fit between San Leon Energy and Island as San Leon Energy already has extensive knowledge of certain Island assets: its two Moroccan onshore assets (the Tarfaya area and Zag basin), its Moroccan offshore assets at Sidi Moussa and Foum Draa and the Netherlands offshore Amstel Field in which each of San Leon Energy and Island have a royalty interest. San Leon Energy also has a good working knowledge of a majority of Island's Celtic Sea assets and high-impact Atlantic Margin.

The fair values of the assets and liabilities acquired as detailed below had been calculated on a provisional basis. No amendment to these fair values is considered necessary in the current year.

	Acquisition book value €	Fair value adjustment €	Acquisition fair value €
Intangible assets	28,369,027	2,360,458	30,729,485
Oil and gas production assets	1,415,540	(1,415,540)	–
Current assets excluding cash	274,589	–	274,589
Cash and cash equivalents	244,092	–	244,092
Other financial assets (ii)	1,044,972	–	1,044,972
Trade and other payables	(2,780,896)	–	(2,780,896)
Provision for decommissioning	(4,419,030)	(926,181)	(5,345,211)
Delta Hydrocarbons BV Loan	(9,493,481)	–	(9,493,481)
Other loans	(322,177)	–	(322,177)
Net assets acquired	14,332,636	18,737	14,351,373
Consideration settled by issue of shares (i)			14,351,373

(i) Excludes acquisition costs of €481,192 which have been included in administration expenses in the consolidated income statement for the year.

(ii) Other financial assets relates to bank deposit accounts held in support of bank guarantees required under the Moroccan exploration licences acquired.

	€
Net cash flow arising on acquisition	
Cash acquired with subsidiary	244,092
	244,092

Island contributed €580,873 to revenues and an operating profit of €139,191 to the Group results for the year ended 31 December 2010. The acquisition would have contributed an estimated €930,000 to revenue and an estimated €1,100,000 to operating losses for the year ended 31 December 2010 if it had been acquired at 1 January 2010. The estimated operating loss arises primarily from the interest charge on the Delta Hydrocarbons BV loan.

26. Acquisition of subsidiaries continued

Gora Energy Resources Sp. Zoo acquisition
On 20 December 2010, San Leon Energy (Poland) Sp. Zoo (a wholly owned subsidiary of San Leon Energy plc) acquired 100% of Gora Energy Resources Sp. Zoo ("Gora") for US$820,000. Gora is a private limited company registered in Poland which holds the 30/2008/9 Gora exploration concession located in the southern area of the Permian Basin, western Poland.

The acquisition significantly expands the Group's exploration acreage in Poland in an area which the Directors believe has significant potential and which further diversifies San Leon Energy's unconventional gas portfolio.

The fair values of the assets and liabilities acquired as detailed below had been calculated on a provisional basis. No amendment to these fair values is considered necessary in the current year.

	Acquisition book value €	Fair value adjustment €	Acquisition fair value €
Intangible assets	60,856	557,279	618,135
Cash and cash equivalents	–	–	–
Net assets acquired	60,856	557,279	618,135
Consideration settled by the issue of shares			565,367
Consideration settled in cash			52,768
Total consideration			618,135

Gora contributed a loss of €926 to the Group results for the year ended 31 December 2010. The acquisition would have contributed an estimated €2,500 to operating losses for the year ended 31 December 2010 if it had been acquired at 1 January 2010.

27. Commitments

(a) Operating leases
Commitments under operating leases are as follows:

	Property €	Motor vehicles €	Total €
Payable:			
Within one year	516,819	141,741	658,560
Between one and five years	2,149,457	275,103	2,424,560
Over five years	916,667	–	916,667
	3,582,943	416,844	3,999,787

(b) Exploration, evaluation and development activities
The Group has commitments of approximately €11 million in the next 12 months to contribute to its share of exploration and evaluation expenditure in respect of exploration licences and concessions held. This amount does not include any expenditure in relation to the planned shale gas exploration wells in the Baltic Basin, the costs of which are fully carried by Talisman Energy Inc.

28. Deferred tax

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2011 €	2010 €	**2011 €**	2010 €	**2011 €**	2010 €
Exploration and evaluation assets	**–**	–	**(9,329,447)**	–	**(9,329,447)**	–
Financial assets – Net Profit Interest	**–**	–	**(11,222,410)**	–	**(11,222,410)**	–
Tax losses recognised	**11,222,410**	–	**–**	–	**11,222,410**	–
	11,222,410	–	**(20,551,857)**	–	**(9,329,447)**	–

Unrecognised deferred tax asset

	2011 €	2010 €
Tax losses	**6,993,064**	5,789,130
Capitalised expenditure	**9,400,053**	18,934,335
	16,393,117	24,723,465

Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profits will be available against which the Group can utilise these losses. The losses have no expiry date with the exception of approximately €190,000 of tax losses in Canada which expire in 2028.

Unrecognised deferred tax liabilities
At 31 December 2011 a deferred tax liability of €540,000 (2010: €nil) for temporary differences of €2,842,250 (2010: €nil) related to equity accounted investments was not recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

29. Related party transactions

Outpost Properties Limited ("Outpost")
San Leon Energy plc ("San Leon") and Outpost have common Directors in Oisin Fanning and Paul Sullivan. San Leon Energy entered into a lease agreement for a premises owned by Outpost with effect from 1 September 2010 for a 10-year period at an annual rent of €250,000. The rent expense recognised in the income statement under this lease agreement in 2011 was €250,000.

Mr. Philip Thompson
At 1 January 2011, Mr. Philip Thompson was owed €1.49m by San Leon Energy plc in relation to consideration due to him for the acquisition of San Leon (Netherlands) Limited. This balance was discharged in full during the year and there are no amounts outstanding at 31 December 2011.

Mr. Oisin Fanning
During the year, Mr. Oisin Fanning (Director) was advanced a short term loan of €1,932,488 by San Leon Energy plc. The maximum outstanding balance during the year and the balance at 31 December 2011 is €1,932,488, which represents 1.1% of the Company's net assets at that date. Interest is payable at 2% per annum on the loan with €19,290 accrued at 31 December 2011. The loan and interest has been repaid in full subsequent to the year end.

Mr. Fanning was paid £300,000 in relation to an option granted by him to the Company which entitles the Company to acquire a property from him at market value. The option has a 15 year term and the option fee is refundable when the Company either exercises or terminates the option.

29. Related party transactions continued

Key management
Key management is deemed to comprise the Board of Directors and the Chief Financial Officer. The total remuneration paid to key management was as follows:

	2011 €	2010 €
Salary and emoluments	**2,336,554**	1,992,543
Fees	**564,922**	361,562
Pension	**178,000**	98,000
Share based payment expense	**1,937,375**	677,599
	5,016,851	3,129,704

Company
Transactions with subsidiaries
Transactions between San Leon Energy plc ("the Company") and its subsidiaries, which are related parties, have been eliminated on consolidation. At 31 December 2011, the Company is owed €60,791,809 (2010: €19,501,548) by its subsidiaries in respect of funds advanced to and expenses discharged by the Company on their behalf. The Company owes €8,085,332 (2010: €1,779,903) to subsidiaries in funds received and services provided by Group companies.

30. Financial instruments and financial risk management

The Group and Company's principal financial instruments comprise trade receivables, financial asset – net profit interest, other financial assets, trade payables and cash and cash equivalents.

The main purpose of these financial instruments is to provide finance for the Group and Company's operations. The Group has various other financial assets and liabilities such as receivables and trade payables, which arise directly from its operations.

The Group and Company's financial assets and liabilities are classified as:
- loans and receivables: all trade and other receivables, amounts due to and from subsidiaries and cash and cash equivalents as disclosed in the statement of financial position
- available for sale: financial asset – net profit interest as described in Note 14
- liabilities at amortised cost: all trade and other payables and loans and borrowings as disclosed in the statement of financial position.

The main risks arising from the Group and Company's financial instruments are foreign currency risk, credit risk, liquidity risk, interest rate risk and capital management. Management reviews and agrees policies for managing each of these risks in a non-speculative manner which are summarised below.

(a) Currency risk
The Group is exposed to foreign currency risk on transactions denominated in a currency, other than the relevant functional currency of the entities of the Group which consist of Euro, Sterling, US Dollars, Polish Zloty (PLN) and Canadian Dollars. The Euro is the presentation currency for financial reporting and budgeting. The Group manages its exposure by matching receipts and payments in the same currency and monitoring the residual net cash position. During the years ended 31 December 2011 and 2010, the Group did not utilise either forward currency contracts or other derivatives to manage foreign currency risk.

30. Financial instruments and financial risk management continued

At year end, the Group's principal exposure to foreign currency risk was as follows:

	Denominated in £ €	Denominated in US$ €	Denominated in PLN €	Denominated in CAD €
Trade and other receivables (note 16)	950,755	6,759	2,170,435	175,683
Trade and other payables (note 19)	(715,090)	(407,593)	(742,950)	(4,537,219)
Provision (note 22)	–	–	–	(1,551,024)
Loans and borrowings (payable within one year) (note 20)	–	(5,177,144)	–	–
Cash and cash equivalents (note 18)	8,017,168	3,372,862	1,979,294	4,615,785
Other financial assets (note 17)	–	502,620	–	–
Loans and borrowings (payable after one year) (note 21)	–	(2,671,219)	–	–
Total 2011	**8,252,833**	**(4,373,715)**	**3,406,779**	**(1,296,775)**
Total 2010	61,401,689	(10,536,926)	53,246	–

At year end, the Company's principal exposure to foreign currency risk was as follows:

	Denominated in £ €	Denominated in US$ €	Denominated in PLN €	Denominated in CAD €
Trade and other receivables (note 16)	392,869	–	17,323,263	–
Trade and other payables (note 19)	(621,915)	(230,065)	(14,937)	(4,209,916)
Loans and borrowings (payable within one year) (note 20)	–	(4,826,736)	–	–
Cash and cash equivalents (note 18)	5,671,203	2,089,702	1,491,422	–
Loans and borrowings (payable after one year) (note 21)	–	(2,715,244)	–	–
Total 2011	**5,442,157**	**(5,682,343)**	**18,799,748**	**(4,209,916)**
Total 2010	62,452,492	1,641,682	6,483,034	–

The euro exchange rates used in the preparation of the financial statements were as follows:

	2011		2010	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**0.8679**	**0.8353**	0.8578	0.8608
US Dollars	**1.3920**	**1.2939**	1.3257	1.3362
Polish Zloty	**4.1206**	**4.4580**	3.9947	3.9750
Canadian Dollars	**1.3761**	**1.3215**	–	–

Sensitivity analysis
If the Euro increased by 1% in value against the above currencies, the Group's profit for the year would decrease and equity at year end would decrease by approximately €60,000. A 1% decrease in the Euro value would have an equal but opposite effect.

If the Euro increased by 1 % in value against the above currencies, the Company's loss for the year would increase and equity at year end would decrease by approximately €142,000. A 1% decrease in the Euro value would have an equal but opposite effect.

30. Financial instruments and financial risk management continued

(b) Credit risk
Credit risk refers to the risk that any counter-party will default on its contractual obligations resulting in financial loss to the Group.

The Group and Company's financial assets (excluding Financial Assets – Net Profit Interest, see (f) Fair values) comprise trade and other receivables and cash and cash equivalents. Due to the nature of trade and other receivables, there is no significant exposure to credit risk on these assets. The credit risk on amounts receivable from joint operating partners is managed by agreeing budgets in advance with partners and where appropriate collecting any material share of exploration costs from partners in advance of completing the exploration work programme.

The credit risk on cash and cash equivalents is considered limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Group also holds limited funds for day to day operational purposes with Irish banking institutions which are subject to guarantee by the Irish government. The Group and Company's maximum exposure to credit risk is equal to the carrying amount of cash and cash equivalents in its consolidated and company statement of financial position. The Group does not expect any counterparty to fail to meet its obligations.

Details of cash deposits, which are all for terms of one month or less, are as follows:

	2011 **€**	2010 €
Euro	**8,170,416**	909,314
Sterling	**8,017,168**	66,130,129
US Dollar	**3,372,862**	35,874
Polish Zloty	**1,979,294**	91,756
Canadian Dollar	**4,615,785**	–
Other	**42,438**	1,586
	26,197,963	67,168,659

Cash deposits held by the Company total €16,289,530 at the reporting date (2010: €66,580,026), comprised of €7,036,833 in Euro, €5,671,202 in Sterling, €2,089,782 in US Dollars, and €1,491,422 in Polish Zloty.

(c) Liquidity risk management
Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities as they fall due. The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash forecasts are produced to identify the liquidity requirements of the Group. Surplus cash is placed on deposit in accordance with limits and counterparties agreed by the Board, with the objective to maximise return on funds whilst ensuring that the short term cash requirements of the Group are maintained.

All cash and cash equivalents are due within one month. All trade and other receivables and trade and other payables are due within three months.

30. Financial instruments and financial risk management continued

The contracted maturities of the Group's financial liabilities at 31 December 2011 are as follows:

Group	Less than one year €	One to two years €	Two to five years €	Total €
Trade and other payables (note 19)	11,451,346	–	–	11,451,346
Loans and borrowings (note 20)	350,785	–	–	350,785
Delta Hydrocarbons BV loan (note 21)	4,826,359	2,671,219	–	7,497,578
	16,628,490	2,671,219	–	19,299,709

The contractual cashflows are equal to the carrying value of the financial liabilities included in the tables above except in relation to the Delta Hydrocarbons BV Loan which includes interest at 11% per annum, resulting in cashflow of €4.83m in less than one year and €3.5m between one and two years. All financial liabilities in the Company have contractual maturity dates of less than 1 year.

(d) Interest rate risk
The Group and Company's exposure to the risk of changes in market interest rates relates primarily to the Group and Company's holdings of cash and short term deposits.

It is the Group and Company's policy to place surplus funds on short term deposit in order to maximise interest earned whilst maintaining adequate short term liquidity for operational requirements.

No interest rate risk arises on loans or other payables held by the Group or Company as all loans are subject to fixed interest rates. If interest rates rose on variable rate instruments by 0.5% at the reporting date, the Group's profit for the year would increase by approximately €131,000 (Company: €81,450) based on the interest bearing financial assets and liabilities held at that date. If interest rates fell by 0.5% it would have an equal but opposite effect.

(e) Capital risk management
The Group and Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group and Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust its capital structure, the Group may adjust or issue new shares or raise debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010. The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained losses as disclosed in the consolidated statement of changes in equity together with long term borrowings.

Shareholders have granted authority to the Directors to dis-apply statutory pre-emption rights in respect of a rights issue or any issue of equity securities for cash up to an aggregate amount of 30% of the nominal value of the Company's issued share capital. The power will expire on the earlier of 30 October 2012 or the date of the Annual General Meeting of the Company in 2012.

San Leon Energy has entered into a Standby Equity Distribution Agreement ("SEDA") with YA Global Master SPV Ltd ("Yorkville"), an investment fund managed by Yorkville Advisors LLC, for a £15 million equity line of credit. Under the terms of the agreement San Leon Energy may draw down funds from time to time, at its sole discretion, over a period of up to three years in exchange for the issue of new shares in the capital of the Company. The shares issued by the Company will be priced at a 6% discount to the prevailing market price at the time of the draw down. The Company may also set a minimum price for each draw down to ensure the Company receives an acceptable price. No draw down of funds has occurred to date on this facility.

30. Financial instruments and financial risk management continued

(f) Fair values
The carrying amount of the Group and Company's financial assets and financial liabilities as set out on the Consolidated and Company Statement of Financial Position and related notes equals the fair values at 31 December 2011 and 31 December 2010.

For cash and cash equivalents and other non-current assets, the nominal amount is deemed to reflect fair value. All receivables and payables have a remaining maturity of less than six months or are on demand balances and therefore the carrying value is deemed to reflect fair value. For interest bearing loans and borrowings the fair value of the amounts outstanding at the reporting date has been calculated based on the present value of future cash flows discounted at market rates.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly
- level 3: techniques which use inputs that are not based on observable market data.

There were no transfers between Levels 1, 2 and 3 categories in the reporting period.

The only asset or liability held by the Group at a fair value determined by a valuation technique is the Financial Asset – Net Profit Interest category which is deemed to be a level 3 financial instrument. Details of the key valuation assumptions are set out in note 14. The total gain arising on recognition of the asset is disclosed in Note 2. No assets or liabilities have been determined by a valuation technique in the Company's statement of financial position.

(g) Hedging
At 31 December 2011 and 31 December 2010, the Group and Company had no outstanding contracts designated as hedges.

31. Subsequent events

Expansion of Polish Shale Gas Acreage
In June 2012, San Leon Energy purchased a 75% working interest in three Polish exploration concessions from Hutton Energy Plc ("Hutton") for US$15 million payable in San Leon Energy shares at an agreed price of 11.24 pence per San Leon Energy share.

The concession areas to be jointly developed with Hutton are the Wielun (219,430 acres) and Olesnica (286,642 acres) concessions in the Carboniferous Basin and the South Prabuty concession (118,611 acres) in the Baltic Basin.

Conversion of exchangeable shares
Subsequent to the year end, the Company has issued 7,247,077 €0.05 Ordinary Shares at £0.1175 in relation to conversion notices issued by the holders of exchangeable shares issued under the terms of the acquisition of Realm Energy International Corporation.

Sale of Amstel Royalty
In June 2012, San Leon Energy reached an agreement to sell its royalty interest in the Amstel Field, Holland for net proceeds of approximately US$13m.

32. Approval of financial statements

The Financial Statements were approved by the Board on 26 June 2012.

Corporate information

Directors	Oisin Fanning (Chairman) Paul Sullivan (Managing Director) John Buggenhagen (Director of Exploration) Jeremy Boak (Non Executive Director) Raymond King (Non Executive Director) Daniel Martin (Non Executive Director)	
Registered Office	First Floor Wilton Park House Wilton Place Dublin 2	
Company Secretary	Raymond King	
Auditor	KPMG Chartered Accountants & Registered Auditors 1 Stokes Place St Stephen's Green Dublin 2	
Principal Bankers	Allied Irish Bank 40/41 Westmoreland Street Dublin 2	Ulster Bank Capital Markets Ulster Bank Group Centre Georges Quay Dublin 2
Solicitors	Whitney Moore Solicitors Wilton Park House Dublin 2	Herbert Smith LLP Exchange House Primrose Street London EC2A 2HS
Stockbroker and Nomad	Westhouse Securities Limited 1 Angel Court London EC2R 7HJ	
Joint Stockbroker	Macquarie Capital Advisors Ropemaker Place 28 Ropemaker Street London EC2Y 9HD	Fox Davies Capital 1 Tudor Street London EC4Y QAH
Registrars	Computershare Investor Services (Ireland) Ltd Heron House Corrig Road Sandyford Industrial Estate Dublin 18	
Registered Number	237825	

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