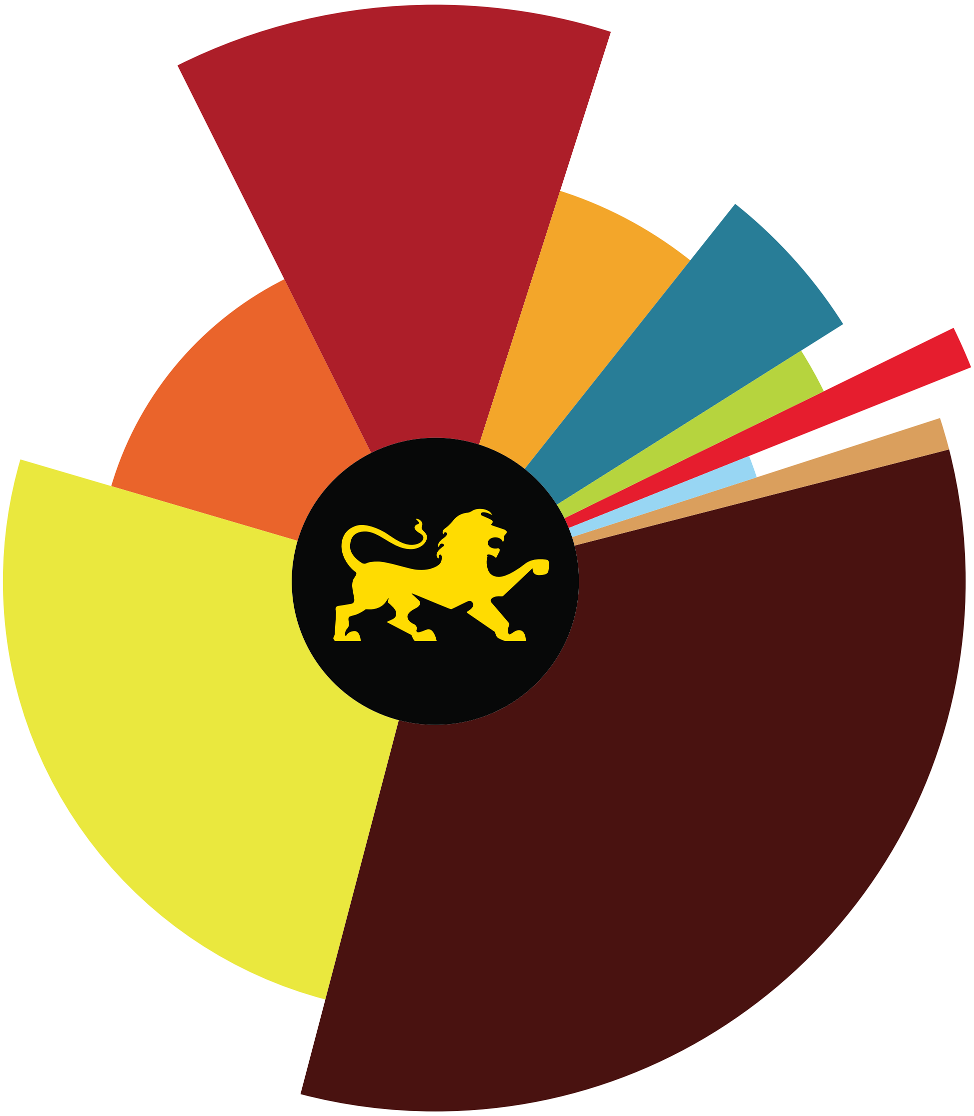

San Leon Energy plc
Annual Report and Accounts 2012

Contents

San Leon 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 completed four acquisitions, including the recent merger with Aurelian, 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 assets

We have an extensive portfolio of assets with a particular focus on Poland, Morocco, Albania and Ireland.

Business review

We are committed to developing our considerable asset base and in this section we set out our strategy, progress and current operational focus.

Governance

We work to strict standards of governance and responsibility. Our Board was strengthened with the appointment of Con Casey as a Non-Executive Director in September 2012.

Financial statements

Profit for the year of €0.47 million. Net assets increased by €18.2 million to €210.2 million with over €44 million invested on our exploration assets.

Acquisition of Aurelian

We completed our acquisition of Aurelian in January 2013, post year end. This strengthens our platform for potential growth.

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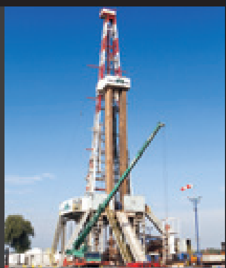

Focus on Poland

Our operations team is based in Poland, where we are focused on developing our assets.

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Shale gas and oil

'Conventional' and 'Unconventional' exploration explained.

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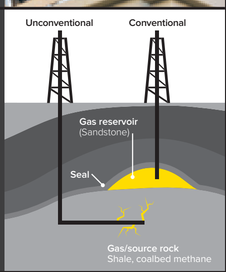
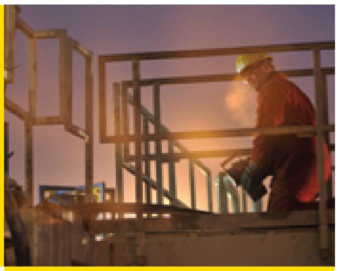


Highlights

San Leon has continued to make operational progress

Poland
Significant progress on our licences

Albania
Identification of significant recoverable resources in the 'Alban Complex'



Morocco
Completion of farm-outs of two offshore licences

Ireland
A steady stream of resource updates on the Barryroe oilfield

Our growth story

2007

First licence
San Leon was established in its current form in 2007 when it secured an interest in the Zag and Tarfaya permits in Morocco.

2008

Listed on London's Alternative Investment Market
Market capitalisation of £100 million.

2009

Gold Point Energy acquisition
The Company expanded its portfolio significantly with our first acquisition, which captured major, high-potential shale gas concessions in Poland's Baltic Basin.

2010

Island Oil & Gas acquisition
The Island acquisition added conventional offshore assets in the Celtic Sea as well as a number of exciting assets in the Atlantic Margin off the west coast of Ireland. In addition, the Company increased its Moroccan onshore acreage in Zag and Tarfaya and gained interests in the Foum Draa and Sidi Moussa licences offshore Morocco. Furthermore, the highly prospective Durresi licence offshore Albania, was added to the portfolio.

€44m Capital expenditure in 2012	**20m** Gross acres in the global portfolio (80,325km^2)	Acquisition of Aurelian Oil and Gas	Memorandum of understanding signed with Halliburton
Admission of ADRs onto OTCQX with Deutsche Bank appointed as the Company's depository bank	Appointed FirstEnergy as Joint Broker	Appointment of Con Casey as Non-Executive Director	Establishment of Advisory Committee

Talisman Energy
A farm-in agreement signed with Talisman, whereby Talisman carried San Leon on the drilling of three wells in the Baltic Basin, Poland.

Placing of shares
Raised £60 million to fund the exploration programme.

2011

Realm Energy acquisition
This acquisition secured a further 464,000 acres in Poland's Baltic Basin. The transaction added 2 million pending acres in Spain and a pending application for 2.5 million acres in France.

NovaSeis
San Leon's subsidiary NovaSeis was established to acquire onshore seismic data.

2012

Aurelian oil and gas acquisition
The acquisition of Aurelian was announced in November 2012 and completed in January 2013. The combination of Aurelian's professional team, cash resources and Polish asset base with San Leon's existing organisation, creates a significant opportunity to realise substantial growth, across both conventional and unconventional assets.

2013

Halliburton
Signed a memorandum of understanding to explore and develop the Carboniferous unconventional gas potential in Poland.

United Oilfield Services
Signed fracturing agreement where San Leon has an option to use shares to pay for certain services.

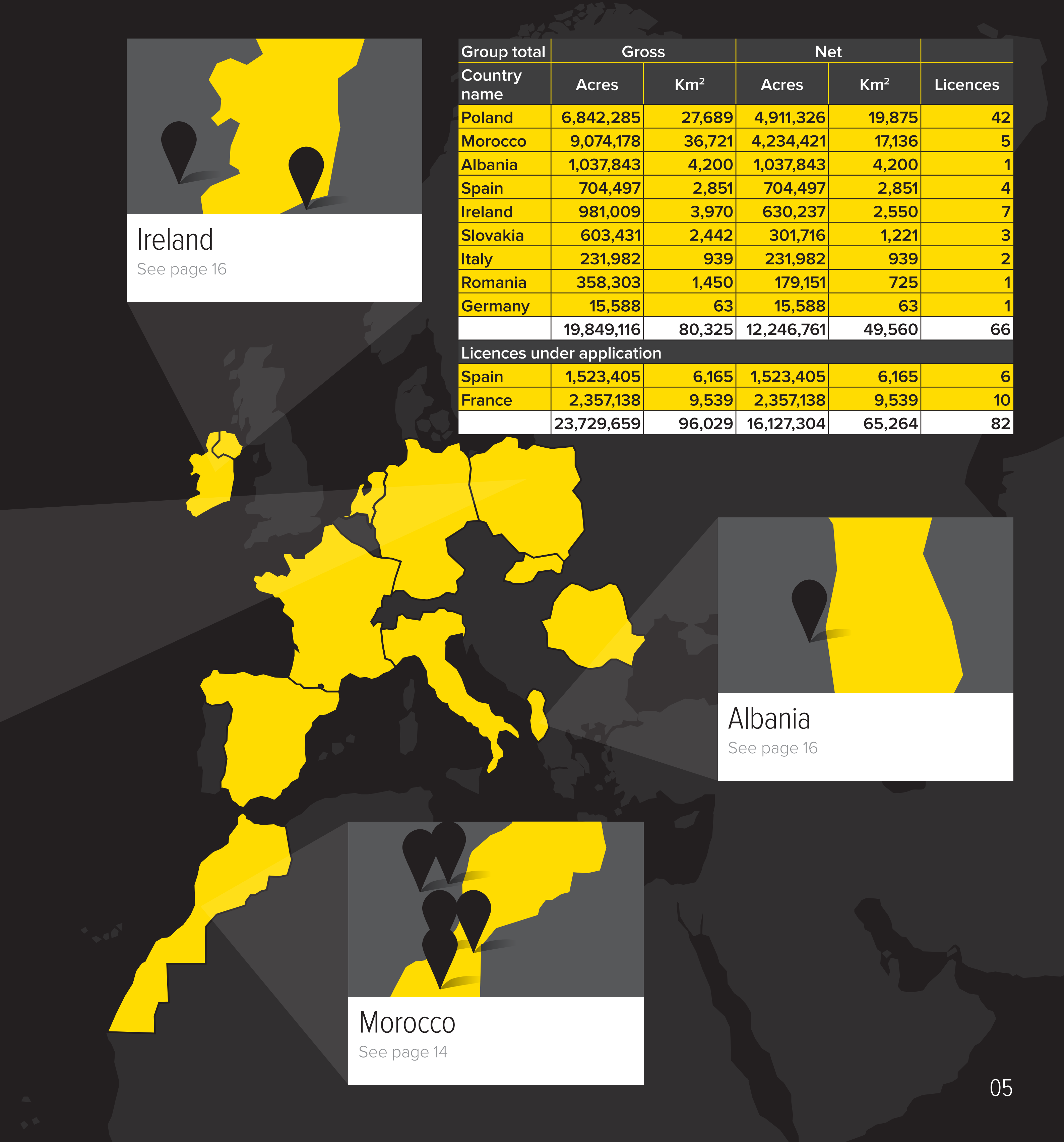
At-a-glance

The acquisition and integration of Aurelian's business and assets has effectively doubled the size of our operations. The deal with Aurelian was consistent with our stated strategy and we will continue to pursue further opportunities in the future.

Pre Aurelian integration (At 31 December 2012)	**Post Aurelian Acquisition (Completed January 2013)**
Cash €1.8m	Cash **€34m**
People 106	People **163**
Licences 53	Licences **82**

Poland
See page 12

Group total	Gross		Net		
Country name	Acres	Km²	Acres	Km²	Licences
Poland	6,842,285	27,689	4,911,326	19,875	42
Morocco	9,074,178	36,721	4,234,421	17,136	5
Albania	1,037,843	4,200	1,037,843	4,200	1
Spain	704,497	2,851	704,497	2,851	4
Ireland	981,009	3,970	630,237	2,550	7
Slovakia	603,431	2,442	301,716	1,221	3
Italy	231,982	939	231,982	939	2
Romania	358,303	1,450	179,151	725	1
Germany	15,588	63	15,588	63	1
	19,849,116	80,325	12,246,761	49,560	66
Licences under application					
Spain	1,523,405	6,165	1,523,405	6,165	6
France	2,357,138	9,539	2,357,138	9,539	10
	23,729,659	96,029	16,127,304	65,264	82

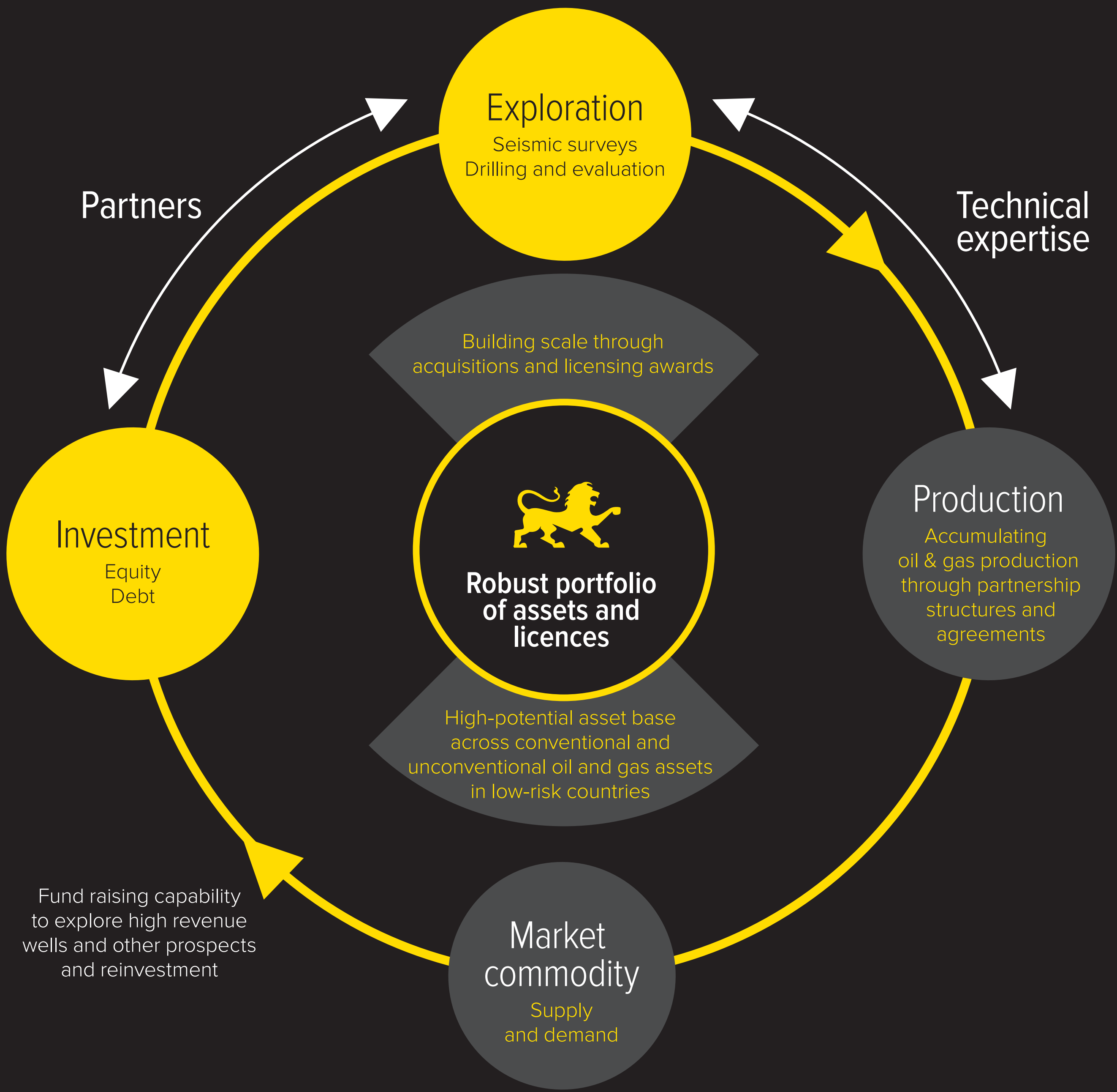


Our principles

San Leon is a vibrant company with a commitment to efficient, ethical and safe business practices. Our principles are founded in respect for people and their communities. We value our relationships with all of our stakeholders.

Business model

San Leon has been building a balanced portfolio of assets across Europe and North Africa since our foundation in 2007. We are now Europe's leading shale gas company by acreage and hold significant conventional assets.



Chairman's review

We hold a remarkable acreage position for a company of our size

2012 was another progressive and successful year for San Leon when we continued to add value to our key exploration projects.

Oisín Fanning
Executive Chairman

2012 was another progressive and successful year for San Leon when we continued to add value to our key exploration projects. We made significant progress across our portfolio with the drilling of five wells on our Polish concessions offering promising results, the completion of farm-outs on our two Moroccan offshore licences on attractive terms to well-known and respected operators, and we increased our understanding of our potentially high impact Albanian block. The Barryroe oil field, offshore Ireland, where we own 4.5% Net Profit Interest was also drilled with positive test results announced.

Since the year end, the Company has pressed on, forming strategic relationships with Halliburton and United Oilfield Services to further appraise our unconventional licences in Poland. Following a change in Talisman's global strategic focus, we also reacquired Talisman's share of the highly prospective Baltic Basin blocks, while in the Southern Permian Basin we recently commenced the stimulation and testing of the Siciny-2 and Czaslaw-SL1 wells.

Our share price performance during 2012 was better than many of our peers but still disappointing. We would have liked to have seen stronger gains. We believe this lesser than expected performance partly reflects the market's current view of AIM-listed exploration and production companies, where asset portfolios are being risked significantly.

Our merger with Aurelian, completed in January this year, has increased the financial, operational and resource base of the Company and leaves us ideally placed to capitalise on our exciting and diverse portfolio in 2013 and beyond.

Aurelian
In November we were pleased to announce San Leon's fourth major transaction in as many years, the merger with fellow European explorer Aurelian by way of a scheme of arrangement under Part 26 of the UK Companies Act 2006.

The transaction comprised of a substantial injection of cash, with net assets at completion of around €62 million (including cash of €31.9 million), and significant acreage that was highly complementary to San Leon's existing holdings.

With the majority of Aurelian's assets concentrated in Poland the combined entity has become the leading independent licence holder in that country, second in acreage only to PGNiG, the national oil and gas company. Aurelian's Polish acreage further diversifies San Leon's interests across diverse play types and depths, giving maximum exposure to any success in the region.

Aurelian has operated in Poland for over a decade, and recently drilled two of the first multi-fractured horizontal wells in the country. Expertise and experience such as this will aid San Leon greatly in its quest to unlock unconventional resources across its portfolio.

Other assets included in the transaction were licences in Romania and Slovakia, and infrastructure and people in the UK, Poland, Romania, Slovakia and Bulgaria.

Since completion in late January 2013 we have been assessing the combined portfolio in order to rationalise and prioritise the most prospective licences. The combined entity will farm down or relinquish some licences as part of this process, and we are identifying synergies to streamline the operation of the merged company.

Poland

We made significant progress on our licences in Poland during 2012.

In February 2012 we completed drilling of the Siciny-2 well, which encountered four potential unconventional producing zones totalling more than 500 metres thickness. Work is on-going, and although Siciny is undoubtedly a complex system it has the potential to transform the Company and substantially change the energy equation in Poland. In 2013 we signed a memorandum of understanding with Halliburton whereby they will perform and fund a DFIT on the Siciny-2 well and then have the option to frack the well. Subject to the execution of a binding agreement, Halliburton can choose to earn up to 25% equity in the Carboniferous elements of the Wschowa, Gora and Rawicz licences by drilling two further exploration wells at their expense. We believe that this provides a good indication of the scale and deliverability of Siciny, and we shall report on the results of the injection tests when completed in due course.

In July 2012 we announced the completion of our Szymkowo-1 well, the third in our Baltic Basin play, which encountered strong gas shows in the Lower Silurian and Ordovician intervals. Talisman's exit from the Baltic Basin in Poland to concentrate on its core areas has proven serendipitous for the Company. Talisman carried San Leon on three wells in the Baltic Basin where we believe material progress has been made on the shale gas play. We have regained operatorship, 100% ownership of the Gdansk W and Braniewo S concessions, and 50% ownership of the Szczawno concession. We also received cash and fixed assets together worth approximately €7.8 million. The recent framework agreement with United Oilfield Services, where the Company will receive competitive rates for fracturing services and can choose to pay for certain services in a combination of cash and equity, means fracture stimulation of the Baltic Basin wells can proceed in the near future. We expect to complete a vertical fracture in our Gdansk W Concession in July, the results of which could have a significant impact on our Company.

The arrangements with Halliburton and United Oilfield Services represent unique and innovative solutions to ensuring our licences are further appraised by world class companies whilst minimising our own capital exposure to exploration and development.

The Company progressed its Main Dolomite unconventional oil play in the Southern Permian Basin Nowa Sol concession considerably during 2012. The Lelechow-SL1 well encountered significant natural fracturing, which brought in surrounding formation water over the oil saturation in the matrix. The second well on Nowa Sol, Czaslaw-SL1, was spudded in October and encountered encouraging gas shows and oil. Results of our successful stimulation test indicate system permeability in line with the Bakken Formation in North America.

In the Southern Permian carboniferous play, the Company entered into a JV arrangement with Celtique in July 2012. We will earn a 50% interest in Block 243 by acquiring 3D seismic data and drilling a well in the licence area. In Laksi, we can earn a 50% interest by acquiring 3D seismic data and exercising an option to participate in an exploration well. We have the option to relinquish Laksi after completion of the seismic. We hope this work will add to the understanding of this evolving play and augment the knowledge gained over the past years.

Chairman's review continued

Morocco
The Company was pleased to announce in August 2012 the completion of the farm-outs of two Moroccan offshore licences to two major E&P operators.

On the Foum Draa block, Cairn acquired 50% of the licence from existing partners in return for a payment of back costs and a gross carry of USD60 million on the first offshore well. San Leon's net interest post farm-out is 14.17%, which reduces our financial exposure whilst maintaining very attractive upside potential. Preparations to drill the well are underway and we expect the well to spud in the second half of 2013.

On the Sidi Moussa block, Genel acquired 60% of the licence for payment of back costs and a gross carry on the first exploration well of USD50 million. San Leon's net interest has been reduced to 8.5%, which is more appropriate for a company of our size on an offshore project of this nature. We hope the well will be drilled in the first half of 2014.

We continue to make progress on our onshore assets. We have mapped new prospects on our Zag and Tarfaya licences while a study performed by Enefit on the Tarfaya oil shale has suggested an oil yield of 72 litres of oil per ton of extracted material is achievable and a commercial operation is possible. The Company is now evaluating the optimal configuration for any production facility.

Albania
Following the 840 km^2 3D seismic survey performed on the Durresi block in 2011, we continued our appraisal of the block by carrying out a prestack depth migration in 2012. The interpretation of this data has identified the 'Alban Complex', with estimated prospective recoverable resources of 3.2 TCF of gas and 145 mmbbls of condensate. This interpretation and analysis is on-going.

In 2013, a two-year extension to the licence was signed and is awaiting Council of Ministers approval. This will allow us additional time to find a partner to fund the drilling of our first offshore well in Albania. The centre of the Alban Complex involves significantly high pressures which will increase well costs and require specialised farm-in expertise.

Ireland
The Company was pleased to note throughout the year a steady stream of resource updates on the Barryroe oil field, where we hold a 4.5% Net Profit Interest on the full field. The most recent update, a third party CPR performed by Netherland Sewell & Associates Inc., indicated that 2C Contingent Resources stand at 346 mmboe. This is proving to be a very valuable asset for San Leon and the decision to negotiate a Net Profit Interest in the field means that we have an asset with significant upside but no capital requirements.

Our other territories
The Company was recently granted two further onshore licences in Spain. The Aquiles and Cronos licences, respectively situated in the Zaragoza and Almazan Basins, both contain unconventional Paleozoic resource potential and potentially shallower conventional targets. In Romania, we have agreed to shoot a 300 km^2 3D seismic survey over an exciting prospect on our Brodina block with our partner S.N.G.N. Romgaz S.A. Preparations for the survey have commenced.

Seismic data
San Leon established NovaSeis in 2011 to acquire onshore seismic data at significantly reduced costs. NovaSeis offers the Company the flexibility to optimise acquisition parameters in any terrain while using the latest wireless seismic acquisition technology to reduce surface footprint.

The crew commenced acquisition in Morocco in 2011, completing more than 2,280km of 2D seismic across the Company's Tarfaya and Zag licences by Q1 2012.

NovaSeis then mobilised to Poland where it has successfully completed multiple 2D and 3D programmes across eight concessions, including concessions with joint venture partners. To date in Poland, NovaSeis has acquired 350 km of 2D data and 695 km^2 of 3D data in very complex and demanding rural and urban environments.

Financial Review
2012 was another year of strong financial management which saw the Group finance a significant exploration programme with a combined investment of over €44 million on its exploration assets. This was achieved through a combination of cash resources, realisation of asset value through the disposal of its Amstel royalty, farm-outs to diversify risk and reduce capital requirements and the selective use of short term debt facilities to strategically manage its financial and operational position.

Turnover for the year increased to €1.37 million (2011: €1.04 million) primarily due to the completion of the first third party seismic operation revenues generated by our seismic company, NovaSeis. This revenue stream has the capacity to be increased in future periods as we complete the Group's short-term seismic obligations on concession areas with the option to engage in additional third party projects.

The profit for the year was €0.47 million (2011: €15.6 million). In 2012, San Leon disposed of its Amstel Royalty Interest for €9.9 million realising a gain of €5.34 million. The decrease in profit is primarily due to the disposal of our 30% licence interest in Barryroe in exchange for a 4.5% Net Profit Interest in the licence, which resulted in a gain of €22 million in 2011. Administration expenses have decreased to €6.01 million (2011: €7.22 million). The resulting Earnings Per Share was 0.04 cent in 2012 compared to 1.84 cent in 2011.

Group net assets increased by €18.3 million to €210.2 million at 31 December 2012 (2011: €191.9 million). This net asset base has been augmented by the completion of the Aurelian acquisition in January 2013 which increased our net assets by a further €62.1 million, including €31.9 million in cash.

Corporate
Besides the Aurelian acquisition, the Company announced in June 2012 the sale of its overriding royalty interest in the Amstel field in the Netherlands to GDF Suez E&P for €9.9 million.

In August, we announced the appointment of FirstEnergy to the position of joint broker, and in September we were pleased to announce the appointment of Con Casey to the Board as a Non-Executive Director. He brings with him a wealth of financial experience and knowledge.

Outlook
Despite a challenging 2012 environment the Company has many reasons to be prudently optimistic. The Aurelian acquisition resolved short-term cash requirements and added some very interesting and prospective acreage.

San Leon holds a remarkable acreage position for a company of its size, and the partners we have attracted to our projects in the last year are testament to the potential we believe exists on our licences.

We now look forward to a successful 2013. We have a great portfolio with a talented team of individuals capable of exploiting these assets. The next twelve months will be the most important in the Company's history as we test our major plays and success in any of these projects could prove transformational for the Company.

Highlights of the program for 2013 include:

Poland

- Halliburton DFIT, currently underway, and frack on Siciny-2
- Czaslaw-SL1 acidisation and test, currently underway
- Fracturing of Baltic Basin wells by United Oilfield Services
- 2D seismic acquisition across SW Carboniferous Basin

Morocco

- Foum Draa exploration well, offshore Morocco
- Sidi Moussa exploration well, offshore Morocco (Q1 2014)
- Tarfaya Oil Shale feasibility studies continuing with Enefit

Albania

- Management of potential farm-out process on Durresi block
- Preparation for drilling off-shore well in 2014

Romania

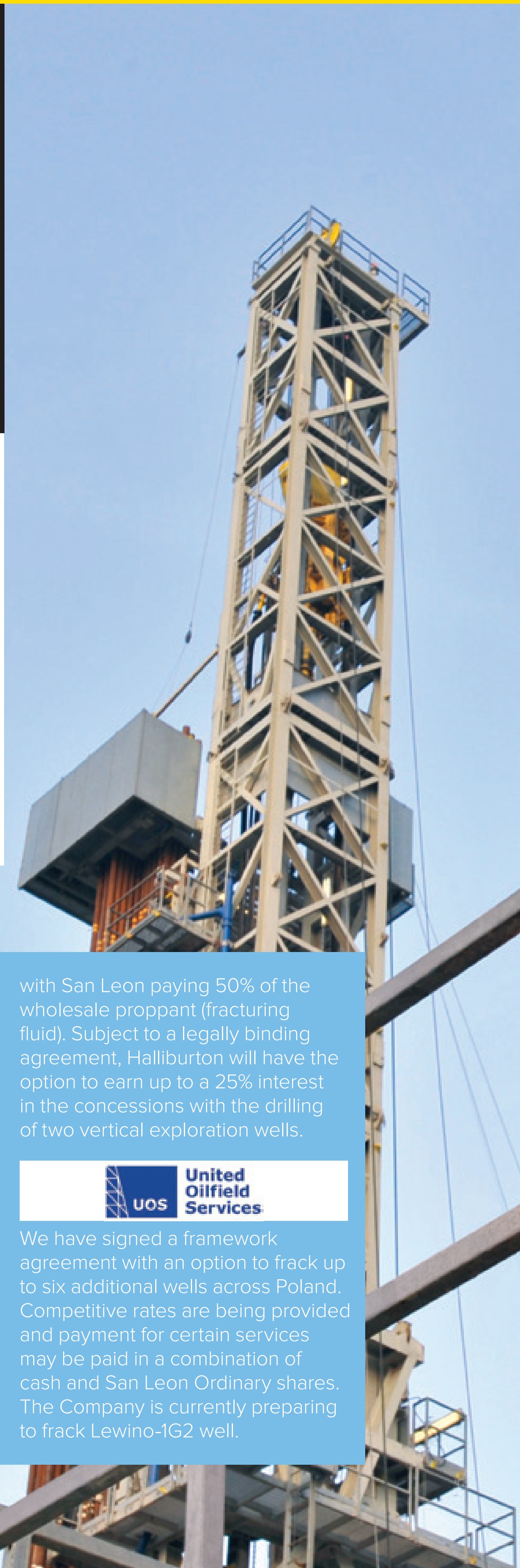
- 3D seismic on San Leon's Brodina block to identify a drilling location on the Putna prospect

Chairman's review continued

Poland
We have an experienced operational team based in Poland focusing on developing our large regional portfolio.

"Our first mover advantage and rapid expansion in Poland has allowed us to build one of the largest and most diverse portfolios in Poland which include high impact unconventional and conventional oil and gas plays."

Dr Witold Weil
Country Manager, Poland



Agreements

San Leon has entered into agreements with well known contractors in Poland to provide innovative solutions to further appraise its assets.

HALLIBURTON

We signed a memorandum of understanding with Halliburton to jointly explore and develop the Carboniferous gas potential in the Wschowa, Gora & Rawicz concessions. Halliburton will perform and fund a DFIT on the Siciny-2 well with an option to perform and fund a minimum two-stage vertical frack, with San Leon paying 50% of the wholesale proppant (fracturing fluid). Subject to a legally binding agreement, Halliburton will have the option to earn up to a 25% interest in the concessions with the drilling of two vertical exploration wells.

UOS United Oilfield Services

We have signed a framework agreement with an option to frack up to six additional wells across Poland. Competitive rates are being provided and payment for certain services may be paid in a combination of cash and San Leon Ordinary shares. The Company is currently preparing to frack Lewino-1G2 well.

1 Baltic Basin

Equity – 50-100%

Partners – Hutton Energy, LNG Energy, Greenpark

Plan 2013/14

- Prove the 129 Tcf unconventional gas potential of the Lower Silurian and Ordovician shales
- Conduct two-stage vertical well frack on the Lewino-1G2 well in Q3 2013 and on the Szymkowo-1 well in Q4 2013
- If successful, follow up exploration wells, including long offset horizontals, multi-stage frack and long term flow testing

2 Carpathians

Equity – 25-100%

Partners – PGNiG, Iskander

Plan 2013/14

- Bieszczady: Determine commercialisation options for 2.4 mmbbl and 27 Bcf 2C Contingent Resources on the Niebieszczany -1 well
- Karpaty West: Multi-well shallow drilling programme

Assets

San Leon holds 42 licences across 6.8 million gross acres in Poland with some of the most prospective acreage in the country.

The Company plans to further appraise the wells drilled in 2012, including testing the high impact Palaeozoic shale play in the Baltic Basin, the Siciny-2 well in the Permian SW Carboniferous and the Czasław-SL1 well in the Permian Main Dolomite.

3 Permian Basin

SW Carboniferous

Equity – 50-100%

Partners – Hutton Energy, Celtique Energy

Plan 2013/14

- Further develop the strategic relationship with Halliburton, which may involve fracture of the Siciny-2 well, and if successful, drilling of two exploration wells

Main Dolomite

Equity – 45-100%

Partners – Hutton Energy, Celtique Energy, Sceptre, Romgaz

Plan 2013/14

- Prove the billion barrels plus net recoverable resource estimated in the Main Dolomite
- Test Czasław-SL1 well
- Further plans dependant on the test results and may include additional exploration wells

Rotliegendes Sandstone

Equity – 45-100%

Partners – Hutton Energy, Celtique Energy, Sceptre, Romgaz

Assets

42 licences
4.9 million net acres

Chairman's review continued

Morocco

San Leon's first mover status and de-risked offshore acreage allow it to benefit from its high impact conventional exploration upside in this Atlantic Margin region where up to ten wells are planned by the industry through 2014.

"Morocco, with its very favourable fiscal terms, has seen an offshore acreage rush in 2012. Since our successful deep water farm-outs, we are now focused on our onshore operations where San Leon has a unique exposure to large acreage areas."

Walid Sinno
Country Manager, Morocco

Agreements

San Leon's Moroccan partner is the state-owned Office National des Hydrocarbures et des Mines (ONHYM). In addition to ONHYM, San Leon has partnered with Cairn, Genel, Longreach and Serica. San Leon has also signed a cooperation agreement with Enefit in respect of the Tarfaya Oil Shale project.

Assets

5 licences
4.2 million net acres

Assets

San Leon holds a non-operated interest in two offshore areas in Morocco, subject to high impact drilling in 2013-14, and is the operator of two onshore licences in the Tarfaya and Zag basins. In addition to its conventional exploration activity, San Leon is pursuing an Oil Shale development project near Tarfaya. San Leon signed a cooperation agreement with Enefit in 2012 to carry out a feasibility study on an Oil Shale retort project on proven reserves near Tarfaya.

1 Foum Draa

- Equity – 14.17%
- Two targets containing 142 mmbbls and 126 mmbbls of prospective resources
- USD60 million well carry from Cairn
- First exploration well H2 2013
- Transocean's deep-water, fifth generation, dynamically positioned, semi-submersible rig, the Cajun Express contracted
- 3,800km^2 3D acquired in 2002

2 Sidi Moussa

- Equity – 8.5%
- Nour prospect with 850 mmbbls prospective resources
- USD50 million well carry from Genel
- First Exploration well 2014
- Noble operated Paul Romano semi-sub contracted
- 1,460km^2 3D acquired in 2000
- Over 7,000km 2D acquired from 1983-1999

3 Tarfaya Oil Shale

- Envisaged potential for 100 mmbbl gross recoverable shale oil
- Initial evaluation suggests capacity for a 5,000-10,000 bopd production
- Continued commitment to proprietary in-situ retorting process (IVE)

4 Tarfaya Onshore

- Equity – 52.5%
- Acquired 600km 2D seismic
- Large syn-rift structures (Triassic)
- Oolitic shoal play with huge potential (Casa Mar and Casa Grande Leads)
- Casa Mar target has 55 mmbbls of prospective resources
- Proven Jurassic source rock

5 Zag

- Equity – 52.5%
- Prospective resources of 3.7 Tcf
- Proven hydrocarbon system – world-class Silurian source rock
- Large gas discoveries to the east and gas discovery to the south of the licence
- Merged basin-wide aeromagnetic survey
- Acquired 1,675km 2D seismic in 2011

Chairman's review continued

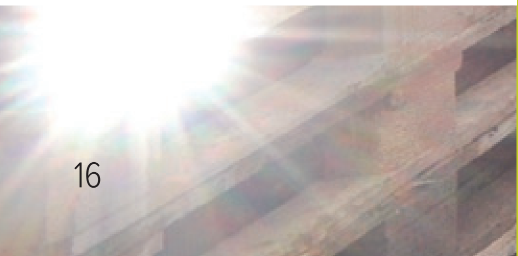
Albania and Ireland

San Leon has built a portfolio of high impact offshore prospects in regions with known prospectivity and attractive fiscal terms.

Ervin Lula
Country Manager, Albania

"Recent 3D seismic data acquired over our Albanian and Irish licences have identified several prospects. Both regions are experiencing a surge in exploration activity and we are in a strong position to capitalise on that, particularly through our Net Profit Interest in the Barryroe Field."

Alan Campbell
Commercial Manager



Assets

Ireland

Ireland, which has been overlooked and largely under-explored in recent years, remains an attractive place to explore as it offers an enticing fiscal regime and political stability. The country is seeing increased activity especially in the Atlantic Margin where San Leon has already identified its 180 mmbbls Benbaun prospect from high quality 3D seismic acquired in the North Porcupine Basin in 2011. In the Celtic Sea, San Leon holds a 4.5% Net Profit Interest in the Barryroe discovery. This 346 mmboe 2C prospective resource is an exciting discovery and San Leon will not have to contribute any capital to the development. In Ireland, San Leon holds seven licences covering 2,550km^2 net, comprising four operated licences in the Atlantic Margin and three licences in the Celtic Sea.

Albania

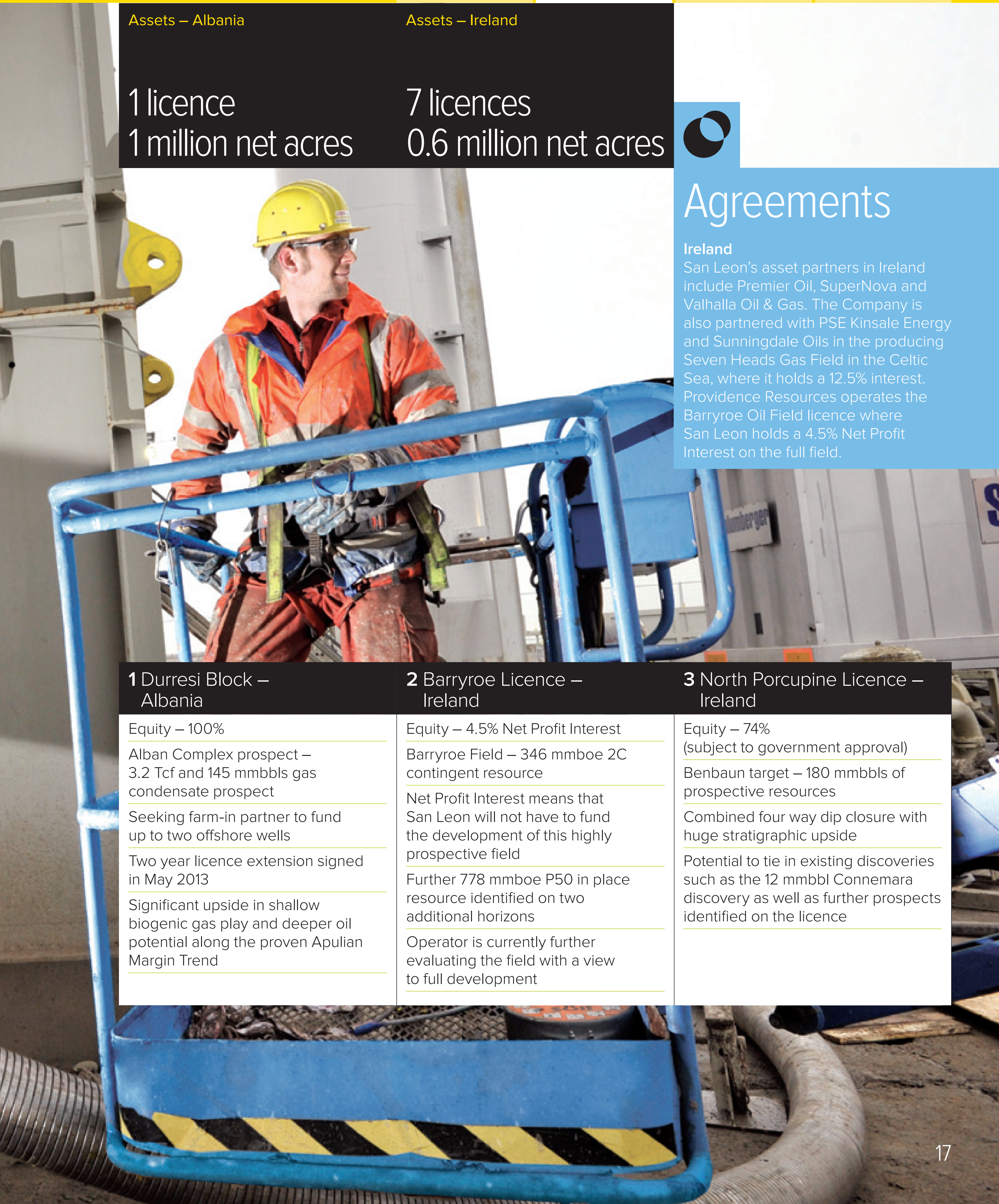
In Albania, San Leon owns the large Durresi offshore block where it acquired 840km^2 3D seismic data survey in 2011. A prestack depth migration was completed in 2012. We have identified a number of highly attractive and material prospects that total up to two billion barrels of oil equivalent. A two year extension to the licence was signed in May 2013, which when approved by the Council of Ministers will allow the Company time to find a partner and drill its first offshore well in Albania.

Assets – Albania

1 licence
1 million net acres

Assets – Ireland

7 licences
0.6 million net acres



Agreements

Ireland
San Leon's asset partners in Ireland include Premier Oil, SuperNova and Valhalla Oil & Gas. The Company is also partnered with PSE Kinsale Energy and Sunningdale Oils in the producing Seven Heads Gas Field in the Celtic Sea, where it holds a 12.5% interest. Providence Resources operates the Barryroe Oil Field licence where San Leon holds a 4.5% Net Profit Interest on the full field.

1 Durresi Block – Albania

- Equity – 100%
- Alban Complex prospect – 3.2 Tcf and 145 mmbbls gas condensate prospect
- Seeking farm-in partner to fund up to two offshore wells
- Two year licence extension signed in May 2013
- Significant upside in shallow biogenic gas play and deeper oil potential along the proven Apulian Margin Trend

2 Barryroe Licence – Ireland

- Equity – 4.5% Net Profit Interest
- Barryroe Field – 346 mmboe 2C contingent resource
- Net Profit Interest means that San Leon will not have to fund the development of this highly prospective field
- Further 778 mmboe P50 in place resource identified on two additional horizons
- Operator is currently further evaluating the field with a view to full development

3 North Porcupine Licence – Ireland

- Equity – 74% (subject to government approval)
- Benbaun target – 180 mmbbls of prospective resources
- Combined four way dip closure with huge stratigraphic upside
- Potential to tie in existing discoveries such as the 12 mmbbl Connemara discovery as well as further prospects identified on the licence

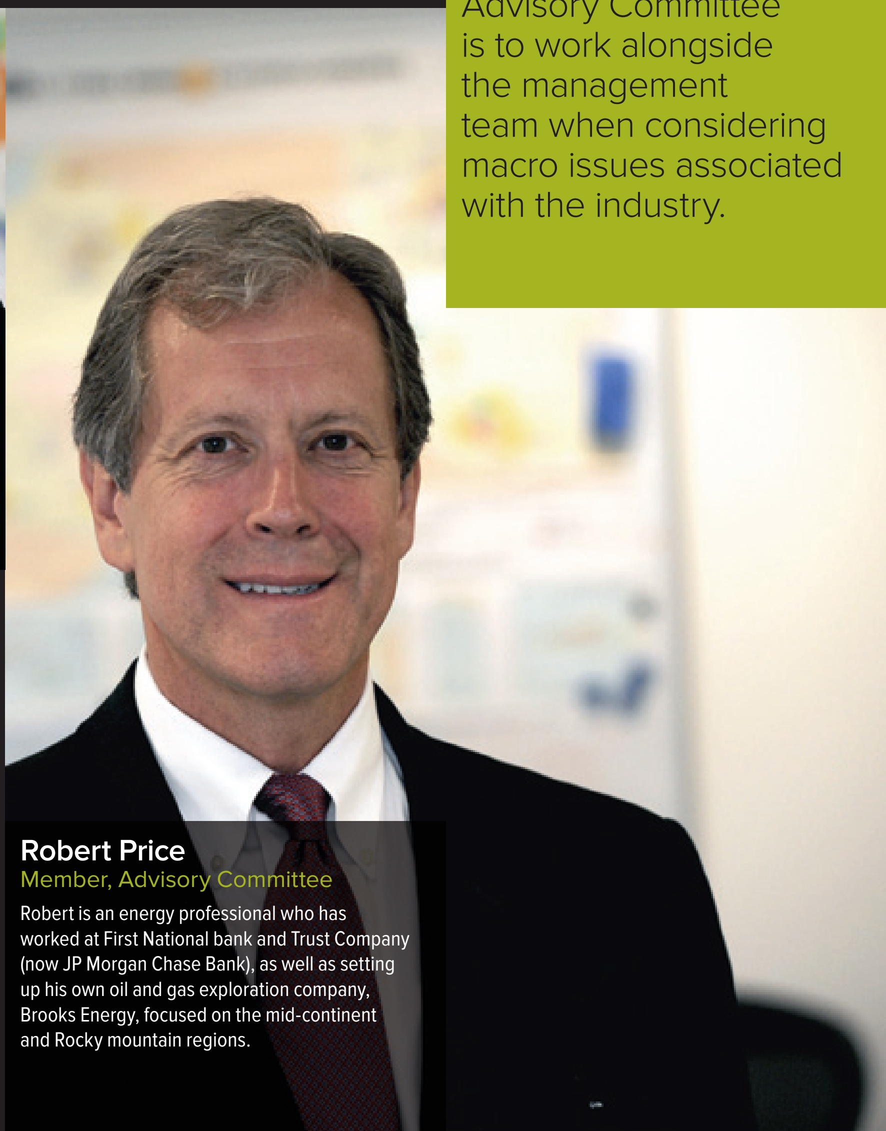
Chairman's review continued

Our expertise
Our team includes leading experts within the oil and gas industry.

Nick Butler
Chairman, Advisory Committee
Nick worked for BP, serving as Group Vice President for Strategy and Policy Development for 2002 to 2006, and as Senior Policy Adviser to the Prime Minister on business policy issues in the run-up to the May 2010 election.

A key role of the Advisory Committee is to work alongside the management team when considering macro issues associated with the industry.

Gerard Medaisko
Member, Advisory Committee
Gerard, a geologist by training, has worked in the industry for over 50 years. He has previously worked with a number of companies, holding senior positions including CEO of Transworld Petroleum.



Robert Price
Member, Advisory Committee
Robert is an energy professional who has worked at First National bank and Trust Company (now JP Morgan Chase Bank), as well as setting up his own oil and gas exploration company, Brooks Energy, focused on the mid-continent and Rocky mountain regions.

Dr Witold Weil
Country Manager, Poland

Witold has contributed significantly to the development of petroleum geology in Poland and has supervised numerous exploration and scientific projects.

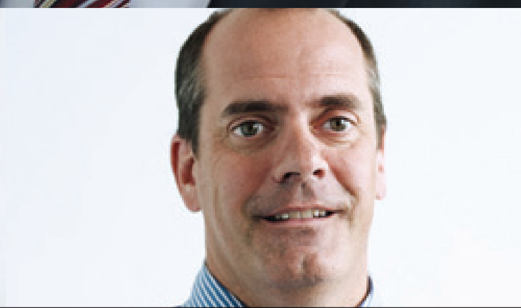
San Leon is led by a team of specialist professionals. Together we combine financial and geophysical expertise, and experience of working at industry leadership level.

Eric Beaumont
Group Drilling Manager

Eric has gained extensive experience in managing a wide range of onshore and offshore projects through his management and operational positions at Perenco, Schlumberger and Kelt Energy.

Lars Hubert
New Ventures and Unconventional Exploration Manager

Lars has considerable experience of using high end geophysical technology and analysis to discover and explore prospects in North America, Europe, North Africa and the Middle East. He has held technical positions with Exxon, Halliburton and Schlumberger.



Dr Martin Olsen
New Ventures and Conventional Exploration Manager

Martin was a Senior Explorationist at Hungarian Horizon Energy and was responsible for a number of commercial discoveries. He earned his PhD with a thesis related to experimental rock mechanics.

Pawel Chalupka
Managing Director, Poland

Pawel successfully combines broad practical knowledge of exploration operations, with high managerial and commercial skills.

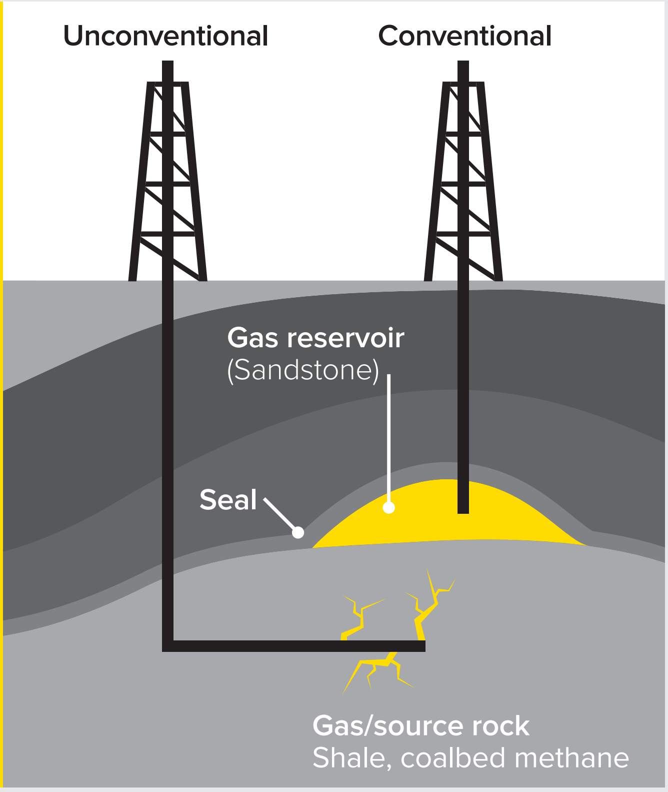
He was Technical Director at EWE for it's operations in Poland and Board Member/ Operational Director at Aurelian Oil and Gas.

Briefing note on unconventional exploration and production

Shale is currently considered to be 'unconventional' – this may change as shale becomes more mainstream

Quick read

- 'Unconventional' is the term currently used to describe shale exploration and production
- In North America unconventional is likely to outpace conventional
- Unconventional involves horizontal drilling, injecting water and fracturing rocks
- As with conventional there are environmental concerns
- The industry is regulated to mitigate environmental impacts
- Europe has great potential for shale



What do we mean by unconventional oil and gas compared to conventional? Within a few years, we may see the distinction completely disappear. It seems likely that in North America at least, oil and gas production from unconventional fields will be greater than any volumes from what were previously considered conventional sources. When that happens, how could the dominant method then be considered unconventional?

Simply put we can say that current conventional oil and gas are easier to produce in terms of the cost and method of producing it.

Another key distinction between the two is that conventional is hard to find but easy to produce, while unconventional is the opposite. Shale rocks comprise the majority of the earth's rock and some geologists believe that as the production techniques are perfected, natural gas will be found to be globally ubiquitous. There are then two key issues to address: how easy is it to produce gas from the rocks? And are the rocks close to customers?

Until the recent shale revolution, it seemed the industry was literally going not only to the ends of the earth to search for hydrocarbon resources, but also plunging the depths of the seas. Is it truly correct in that sense to call ultra-deep drilling discoveries conventional? This century has seen three huge oil and gas discoveries offshore: Brazil oil; East African oil and gas; and the predominantly gassy Eastern Mediterranean fields. These have all been game-changers, yet they have all accessed what were known as conventional reservoirs.

Some of the controversy has arisen because conventional resources have a history of being able to be measured more easily than unconventional, predominantly shale, resources. But the reserve to resource ratio even for conventional changes over time. The classic definition of reserves is 'accessible using present technology'. By its very nature technology improves over time. In the 1970s it was thought that much of the oil and gas reserves would run out by the end of the century. That was certainly the conventional thinking in large discoveries of that era such as in the North Sea and the North Slope of Alaska. These two areas still alive and thriving today.

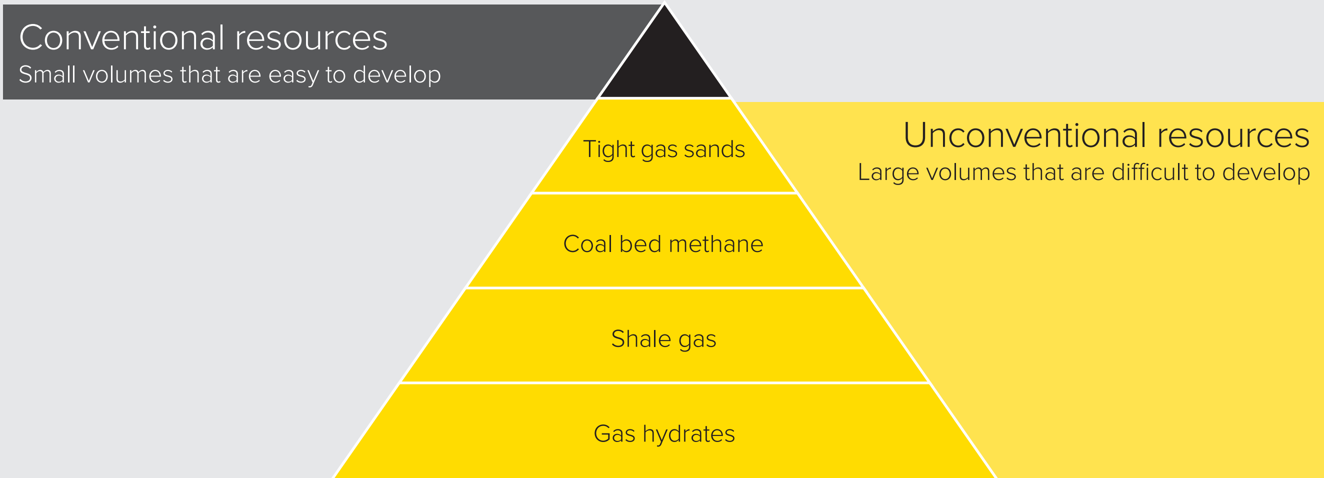
Unconventional oil and gas refers more than anything to unconventional geology. Until recently, oil and gas was found contained in discrete reservoirs trapped between geological strata, for which we had several decades of experience of reservoir estimation to draw upon.

Shale gas has widespread resources, but it has taken a combination of two technologies to access them. The first was horizontal drilling, itself a product of conventional drilling, especially offshore. The second breakthrough was also originally used in conventional fields. This was the process of stimulating the rock using various mixes of water pressure and chemicals to open the rocks to let hydrocarbons flow to the surface.

These two advances, combined with the introduction of cheap and powerful computing resources into fields such as petro-chemistry and petro-physics, have made both exploration and production far more certain.

Interestingly, the new 3D and 4D seismic technologies that brought on shale have had a similar impact on conventional offshore drilling. This particularly significant given that major oil companies are now the largest buyers of super computers after government intelligence agencies and weather forecasting.

Briefing note on unconventional exploration and production continued



Conventional and unconventional production

Conventional is hard to find and easier to produce. It's closer to the surface and thus drilling costs are low. Historically it was a collection of many shallow wells directly puncturing the reservoir. The costs are lower, but the resource itself is not widely distributed and tends to be far away from the market.

Unconventional consists of single pads containing multiple wells. Accessing a large area, hydraulic fracturing releases much more oil and gas and has the benefit, and problem, of being on, or under customer doorsteps.

How are assets measured?

Conventional assets are measured in terms of the size of the reservoirs. Once the field has been discovered, it's easy to measure it and produce fairly accurate pictures of how much oil or gas it contains. Conventional resources have been around for over a hundred years and geologists can be confident with the accuracy of the data.

Unconventional resource estimation is still open to dispute in some quarters. The resource often appears huge, but the amount of gas and oil they hold is harder to measure. However, it would appear from North American experience that almost all shale plays can produce some oil or gas. It then becomes a question of how easily the rocks can be made permeable – what is often called 'frackability'. Rocks are heterogeneous yet the shale revolution has resulted in some common properties necessary for shale evaluation. They include geological standards such TOC (total organic content) reservoir pressure, thermal maturity and clay content.

Alongside properties of the reservoirs themselves it becomes a matter of measuring physical extent, measured by both area and thickness. Another factor is the depth of the resources. Shale resources tend to be much deeper than conventional oil and gas wells and depth is a key indicator of how costly drilling itself will be.

The lack of much history of shale gas extraction gives rise in some quarters to nervousness over the size of the resources. We know that theoretically the resources are huge, but some conventional thinkers remain unconvinced even though the rapid rise of production in North America is dispelling many initial misgivings.

What are the technologies?

Hydraulic fracturing involves sending high volumes of water underground at high pressure to force open rocks to release gas.

Horizontal drilling entails drilling down but then across so that the well bit accesses much more of the rock face. This can make one well far more productive than a single vertical well used in traditional onshore drilling.

What are the benefits?

Horizontal drilling is likely to be particularly helpful in Europe in the future. Simply put, all the action takes place underground. Using multiple wells fanning out from a central location into thicker shales has benefits in reducing surface footprint. Reducing footprint is not only vital in getting public acceptance of shale gas, but also in reducing costs.

What are the environmental impacts?

The surface impact of shale production can be mitigated by multi-pad horizontal drilling.

While the method uses a large amount of water, it has not consumed more than a quarter of one percent of local water resources in North America. This may be more in arid areas, but these are the very areas where population competing for scarce resources is also low. To put this into context, shale gas and oil is considered viable in terms of water requirement in North Africa, the Middle East and outback Australia.


Gathering seismic data in Poland

Water has a number of issues: availability; transport to site location; chemical composition; treatment of flowback water which returns from the well; and finally return of the water to the hydrological cycle. However, careful management of the water has proven to be both safe and sustainable.

In Europe, stringent EU regulation combined with industry adherence to the International Energy Agency's Golden Rules of Gas will ensure the growing public confidence necessary so that gas resources can be translated into reserves.

What are the prospects in Europe and North Africa?

While shale gas is present across the globe its profitability is closely linked to the proximity of resources to markets. Equally there are challenges posed by the existence of sources of oil and gas too close, or indeed under, dense population.

This is particularly true in Western Europe. Shale is widespread across the major markets of France, Germany and the UK. This provides excellent opportunities to serve the local markets.

Is it still true that a multi-well vertical drilling field in pristine areas such as the Arctic or deserts thousands of miles from end users (which then needs substantial energy to transport the fuels) can be called 'conventional'? On a strict interpretation, gas from the remote northern ocean locations, transported hundreds of miles to an LNG terminal, where it is frozen, and then transported thousands of miles and then re-gasified, is considered 'conventional'. Yet gas, literally under our feet, transported only metres away to either a gas grid or directly into a power station is still considered by some as 'unconventional'.

The dynamic nature of the oil and gas industry, combined with changes in public perception, will no doubt continue to redefine what we mean by these terms.

Board of Directors

			
	Oisín Fanning Executive Chairman	**Paul Sullivan** Managing Director	**Dr John Buggenhagen** Exploration Director
Background and experience	Oisín 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, Oisín 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 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 in 2009 as Vice-President of Exploration. He was appointed Exploration Director in 2010.
Key strengths	Oisín 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'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 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 four acquisitions we have completed 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."	Resigned 20 May 2013. Remains a consultant to the Company.
Committee memberships	Member of Nominations Committee.	Member of Nominations Committee.	

Dr Jeremy Boak
Non-Executive Director

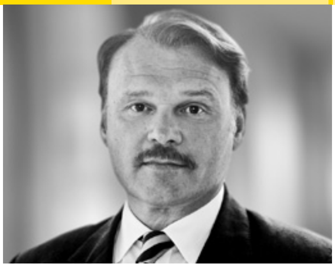
Director of the Centre for Shale Technology and Research (COSTAR) at the Colorado School of Mines, Jeremy chairs the leading international symposium on shale development and the Oil Shale Committee of the Energy Minerals Division (EMD) of the American Association of Petroleum Geologists (AAPG).

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 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."

Member of Risk and Safety and Nominations Committee.



Daniel Martin
Non-Executive Director

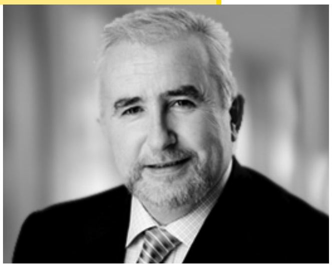
Daniel is a London-based commercial lawyer and graduate of Cambridge University, the University of South Carolina, and the American University Law School in Washington, DC.

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.



Con Casey
Non-Executive Director

Con Casey has an honours degree in Business Management from Trinity College and is a Fellow of the Association of Chartered Certified Accountants. He has over 25 years' experience in advising companies in the natural resources sector as well as acting as adviser to a number of publicly quoted companies and semi-state organisations. He specialises in the area of corporate finance and is a founding partner of LHM Casey McGrath, one of Ireland's leading accountancy firms, as well as being a Non-Executive Director, since 2000, of Petroceltic Plc, which is also quoted on AIM.

Con Casey's appointment will enable the Company to enhance the composition of its Board Committees as well as providing access to his considerable experience as a Non-Executive Director.

"I'm delighted to be on the team at such an exciting time for San Leon. I aim to use my experience in the industry to help the company realise its full potential and continue to meet best practice."

Member of Audit 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 is fully compliant in all aspects of its decision-making and operations."

Member of Remuneration, Audit, Risk and Safety and Nominations Committee.

Directors' report

for the year ended 31 December 2012

The Directors present their Annual Report together with the audited financial statements of San Leon and the Group for the year ended 31 December 2012.

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 Review.

Results and dividends

The Group profit for the year after providing for depreciation and taxation amounted to €460,667 (2011: profit of €15,599,885). Net assets of the Group at 31 December 2012 are €210,150,217 (2011: €191,918,309). 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, Romania, Spain and Italy. 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 31. 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 Stg£0.073 to a high of Stg£0.132. The share price at the year-end was Stg£0.089.

Directors

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

Oisín Fanning, Executive Chairman
Paul Sullivan, Managing Director
John Buggenhagen, Director of Exploration (resigned 20 May 2013)
Raymond King, Non-Executive Director and Company Secretary
Jeremy Boak, Non-Executive Director
Daniel Martin, Non-Executive Director
Con Casey, Non-Executive Director (with effect from 28 September 2012)
Philip Thompson, Non-Executive Director (resigned on 6 February 2012)

In accordance with the Articles of Association, Paul Sullivan and Daniel Martin retire from the Board by rotation and being eligible offer themselves for re-election. Con Casey has been appointed as Director and will retire at the 2013 Annual General Meeting, being the first Annual General Meeting of the Company following his appointment and being eligible will offer himself for re-election as Director.

Directors and their Interests

The Directors and Company Secretary who held office at 31 December 2012 had no interests other than those shown below in the Ordinary shares of the Company. All interests are beneficially held by the Directors.

	Ordinary shares		
Director	25/06/13 (or date of resignation)	31/12/12	01/01/12
Oisín Fanning	60,840,000	60,840,000	59,840,000
Paul Sullivan	59,840,000	59,840,000	59,840,000
John Buggenhagen*	1,250,000	1,250,000	–
Raymond King	–	–	–
Jeremy Boak	–	–	–
Daniel Martin	1,134,549	1,134,549	1,134,549
Con Casey	–	–	–

* Resigned 20 May 2013.

Share options

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

Director	Options at 01/01/12	Granted in year	Exercised in year	Cancelled in year	Options at 31/12/12	Exercise price	Expiry date
Oisín Fanning	5,250,000	–	–	(2,750,000)	2,500,000	£0.11	04/02/16
	3,000,000	–	–	–	3,000,000	£0.11	14/11/18
	5,000,000^	–	–	–	5,000,000	£0.35	25/07/17
	3,500,000^	–	–	–	3,500,000	£0.35	13/02/18
	250,000	–	–	–	250,000	£0.25	29/12/17
	5,500,000*	–	–	–	5,500,000	€0.05	14/11/18
	–	3,500,000	–	–	3,500,000	£0.13	20/03/19
	–	5,500,000*	–	–	5,500,000	€0.05	06/07/19
Philip Thompson	3,750,000	–	–	(2,750,000)	1,000,000	£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	–	–	(2,750,000)	2,000,000	£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
	–	3,000,000	–	–	3,000,000	£0.13	20/03/19
	–	4,000,000*	–	–	4,000,000	€0.05	06/07/19
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
	–	2,500,000	–	–	2,500,000	£0.13	20/03/19
	–	4,000,000*	–	–	4,000,000	€0.05	06/07/19
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
	–	1,500,000	–	–	1,500,000	£0.13	20/03/19
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
Con Casey	–	–	–	–	–	–	–

^ The 15,000,000 (2011: 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.

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

Directors' report continued

for the year ended 31 December 2012

Transactions involving Directors

There have been no contracts or arrangements of significance during the year in which the Directors of the Company were interested other than as disclosed in Note 30 to the financial statements.

Significant shareholders

The Company has been informed that, in addition to the interests of the Directors above, at 31 December 2012 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	
	20/06/13	31/12/12
Quantum Partners LLP	**11.51%**	17.58%
Blackrock Investment Management Ltd	**6.60%**	10.08%
Philip Thompson	**3.03%**	4.62%
Toscafund Asset Management LLP	**16.01%**	4.39%
Kulczyk Investments S.A.	**4.71%**	–

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.

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 to continue in operational existence for the foreseeable future which covers a period of at least twelve 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

At the date this Annual Report is published, the Board is comprised of two Executive Directors and four 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 Con Casey, with Con Casey 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 Oisín Fanning, Jeremy Boak, Paul Sullivan and Raymond King, with Raymond King 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 locating 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, Jeremy Boak 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
The Advisory Committee consists of independent industry experts, Nick Butler (chairman), Gerard Medaisko and Robert Price. The Advisory Committee provides 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 is 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 annual and interim reports, operational updates, RNSs and the Company's website, www.sanleonenergy.com. The Company re-designed its website in 2012 as part of its ongoing commitment to improve the quality of information communicated to the shareholders. The Directors are responsive to shareholder telephone and email enquiries received 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 to 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, and
- 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 2012 are set out on the table below.

In accordance with IFRS 2, Share based payments, an additional cost of €2,571,210 (2011: €1,883,145) has been recognised in respect of share options granted to Directors (See Note 26).

Table 1: Director Remuneration

	Salary & emoluments €	Bonus €	Pension €	Fees €	**2012 Total €**	2011 Total €
Oisín Fanning	852,624	459,503	–	50,000	**1,362,127**	1,125,810
Paul Sullivan	488,725	98,027	96,000	50,000	**732,752**	599,355
John Buggenhagen	689,342	111,458	–	50,000	**850,800**	620,264
Raymond King^	–	–	–	173,767	**173,767**	168,000
Jeremy Boak	–	–	–	38,783	**38,783**	35,550
Daniel Martin^	–	–	–	163,357	**163,357**	161,372
Con Casey	–	–	–	16,668	**16,668**	–
Philip Thompson+	–	–	–	–	**–**	182,932
	2,030,691	668,988	96,000	542,575	**3,338,254**	2,893,283

+ Resigned 6 February 2012.

^ Includes amounts paid to companies under service agreements entered into by the Group for the services of these individuals.

Directors' report continued

for the year ended 31 December 2012

Books and accounting records

The Directors are responsible for ensuring that 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 the Company's head office, 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 32.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report 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 2012 (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 Companies 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 the financial statements comply with the Companies Acts 1963 to 2012. 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.

On behalf of the Board

Paul Sullivan Director	**Oisín Fanning** Director

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

We have audited the Group and Parent Company financial statements ("financial statements") of San Leon Energy plc for the year ended 31 December 2012 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. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2012.

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 auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 30, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

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

Opinion on financial statements
In our opinion:

- the 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 2012 and of its profit for the year then ended;
- the Company Statement of Financial Position gives a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Acts 1963 to 2012, of the state of the parent company's affairs as at 31 December 2012; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2012.

Matters on which we are required to report by the Companies Acts 1963 to 2012
We have obtained all the information and explanations which we consider necessary for the purposes of our audit. The Company's Statement of Financial Position is in agreement with the books of account and, in our opinion, proper books of account have been kept by the Company. 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 2012 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

Matters on which we are required to report by exception
We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2012 which require us to report to you, if in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Roger Gillespie
for and on behalf of

KPMG

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

25 June 2013

Statement of accounting policies

for the year ended 31 December 2012

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 Park House, Wilton Place, Dublin 2, Republic of Ireland.

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

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 2012 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 2012.

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 2012 that are effective for the Group's financial year ending on 31 December 2012 and that had no significant impact on the results or financial position of the Group for the year ended 31 December 2012:

- IFRS 7 Financial Instruments: Disclosures – Amendments resulting from 2010 Annual Improvements to IFRSs and amendments enhancing disclosures about transfers of financial assets.
- IAS1 Presentation of Financial Statements – Amendments resulting from 2010 Annual Improvements to IFRS
- IAS 24 Related Party Disclosures – Revised definition of related parties

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. A number of standards have been issued, some of 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 2015, 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 (not EU endorsed);
- IFRS 10 Consolidated Financial Statements, which is likely to be effective for the Group's consolidated financial statements for the year ending 31 December 2014, 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's holds interests (EU endorsed);
- IFRS 11 Joint Arrangements, which is likely to be effective for the Group's consolidated financial statements for the year ending 31 December 2014, will change the current definitions and accounting for jointly controlled arrangements (EU endorsed);
- 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 2014, will require enhanced disclosures in relation to consolidated and unconsolidated entities (EU endorsed);
- 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 (EU endorsed).

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.

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.

Basis of Preparation – Going Concern
The Directors have prepared a detailed cash flow forecast for the Group and Company for the period from 1 May 2013 to 30 June 2014. In addition, although a detailed cash flow forecast has not been prepared for the period from 1 July 2014 to 31 December 2014, the Directors have also considered this period in their overall assessment of going concern.

The cash flow forecasts reflect the Directors' plans for the on-going exploration activity across the Group's exploration asset portfolio taking account of its licence commitments, technical team costs, administrative overhead, other financial commitments and its available financial resources from existing cash balances and committed facilities.

The Group has two committed facilities available comprising an undrawn GBP15 million Standby Equity Distribution Agreement ("SEDA Facility") and a USD12 million debt facility ("Debt Facility"). Both facilities have been provided by YA Global Master SPV Ltd ("YA Global"). The facilities are linked and the maximum funding available to the Group under the terms of both facilities is GBP 15 million, of which USD4 million has been drawn down at the date of approval of the financial statements.

The SEDA Facility provides a GBP15 million equity line of credit to the Group. Under the terms of the SEDA Facility the Group may draw down funds from time to time, at its sole discretion, in exchange for the issue of new shares in the capital of the Company. The original term of this facility was to 31 October 2013, however, on 18 April 2013, the facility was extended to 31 October 2014. On draw down the shares to be issued by the Company will initially be priced at a 6% discount to the prevailing market price (as defined in the SEDA Facility) 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. The Group may apply for an advance under the terms of the SEDA Facility subject to a number of conditions being satisfied by the Group at the date the request for an advance is made. Each advance may be restricted to an amount equal to 200% of the average daily value traded of the Company's shares for each of the ten trading days prior to the advance notice date or such an amount which would result in YA Global holding more than 2.99% of the issued share capital of the Company. Without the prior written consent of YA Global, the Group may not request more than one advance in each period of ten trading days.

Under the terms of the Debt Facility (also known as the SEDA Backed Note Agreement), amounts can be drawn down subject to the mutual agreement of YA Global and the Group. As funds are drawn down under this facility, the amount available for drawdown under the SEDA Facility is restricted by the amount of any outstanding balance on the debt facility. This restriction on the SEDA drawdown is subsequently reduced on cash repayment of the debt facility, such that on full repayment of any amount drawn on the debt facility, the full amount of the SEDA facility is available for drawdown subject to its normal drawdown conditions detailed above. Each Debt Facility draw down is repayable by instalment over a 12 month period from the date of the draw down and interest is payable at a rate of 10% per annum. San Leon can opt to make any repayment instalment by way of a drawdown from the SEDA facility in lieu of a cash repayment. The facility expires on 31 October 2014.

In addition to the availability of funds through the above facilities, the strategy of the Directors is to mitigate risk on its exploration portfolio by monetising certain assets through outright / partial disposal of interests or securing 'farm-in' partners on certain projects. The Directors intend, where appropriate, to continue to seek to structure such 'farm-ins' to secure cash contributions for past costs or secure payments for future exploration activities. The Directors are engaged in on-going discussions on a number of its assets which the Directors expect will generate cash resources to assist in financing the Group's exploration programme in the foreseeable future.

The Board also maintain a close dialogue with shareholders in relation to the future exploration activities and funding requirements of the Group. A number of shareholders have confirmed that they would be willing to consider providing financial support to the Group in the form of equity in the event that further funding is required to continue or expand the Group's exploration programmes. The Directors are confident that this support will be forthcoming as an alternative funding option in the event that asset disposals or 'farm-in' plans are not concluded on a timely basis or on acceptable terms consistent with maximising shareholder value.

After considering the cash flow forecast and the underlying assumptions, sensitivities and the financing facilities available to the Group, the Directors have a reasonable expectation that the Company and Group will have adequate resources to continue in operational existence for the foreseeable future.

Accordingly the Directors continue to adopt the going concern basis of preparation of the financial statements for the year ended 31 December 2012.

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.

Statement of accounting policies continued

for the year ended 31 December 2012

Use of estimates and judgements

The preparation of financial statements in conformity with EU IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. 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)
- Recoverability of equity accounted investments (Note 10)
- Measurement of financial assets (Note 14)
- Measurement of decommissioning provisions (Note 23)
- Measurement of share-based payments (Note 26)
- Recognition of tax losses (Note 29)

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 intragroup 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 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.

Inventories

Inventories are valued at the lower of cost and net realisable value.

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 an available for sale 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.

Statement of accounting policies continued

for the year ended 31 December 2012

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 31.

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 26.

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 equity 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 and warrants.

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.

Derivative

Options and warrants issued to non-employees of the Group are fair valued and recognised as a derivative liability.

Consolidated income statement
for the year ended 31 December 2012

	Note	2012 €	2011 €
Continuing operations			
Revenue	1	**1,370,590**	1,039,654
Cost of sales		**(816,900)**	(566,469)
Gross profit		**553,690**	473,185
Other income	2	**5,339,031**	25,990,204
Administrative expenses		**(6,012,944)**	(7,225,224)
Exploration costs written-off	9	**–**	(2,684,290)
(Loss)/profit from operating activities		**(120,223)**	16,553,875
Finance expense	4	**(2,549,620)**	(1,258,186)
Finance income	5	**3,170,110**	344,255
Share of loss of equity-accounted investments	10	**(29,403)**	(4,715)
Profit before income tax		**470,864**	15,635,229
Income tax expense	7	**(10,197)**	(35,344)
Profit for the year attributable to equity holders of the Group		**460,667**	15,599,885

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

	Note	2012 €	2011 €
Profit for the year		**460,667**	15,599,885
Foreign currency translation differences – foreign operations		**2,596,068**	915,281
Fair value movements in available-for-sale financial assets	14	**(436,721)**	–
Total comprehensive income for the year		**2,620,014**	16,515,166
Earnings per share:			
Basic earnings per ordinary share	8	**0.04 cent**	1.84 cent
Diluted earnings per ordinary share	8	**0.04 cent**	1.77 cent

The accompanying notes on pages 46-72 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisín Fanning
Director

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Share Capital €	Share Premium €	Currency Translation €	Share Based Payment €
2011				
Balance at 1 January 2011	39,099,780	91,589,215	382,768	3,417,145
Total comprehensive income for year				
Profit for the year	–	–	–	–
Other comprehensive income				
Foreign currency translation differences	–	–	915,281	–
Total comprehensive income for year	–	–	915,281	–
Transactions with owners recognised directly in equity				
Contributions by and distributions to owners				
Issue of shares related to business combinations (Note 27)	14,204,217	24,912,101	–	–
Issue of shares	1,542,267	3,938,527	–	–
Share options and warrants exercised	663,921	437,243	–	–
Share based payment (Note 26)	–	–	–	2,792,554
Effect of share options exercised	–	–	–	(748,211)
Shares to be issued on Realm acquisition on conversion of exchangeable shares (Notes 25 and 27)	–	–	–	–
Shares issued to Realm shareholders on conversion of exchangeable shares	1,148,406	2,014,134	–	–
Total transactions with owners	17,558,811	31,302,005	–	2,044,343
Balance at 31 December 2011	**56,658,591**	**122,891,220**	**1,298,049**	**5,461,488**
2012				
Balance at 1 January 2012	56,658,591	122,891,220	1,298,049	5,461,488
Total comprehensive income for year				
Profit for the year	–	–	–	–
Other comprehensive income				
Foreign currency translation differences – foreign operations	–	–	2,596,068	–
Fair value movements in available-for-sale financial assets	–	–	–	–
Total comprehensive income for year	–	–	2,596,068	–
Transactions with owners recognised directly in equity				
Contributions by and distributions to owners				
Issue of shares on acquisition of equity accounted investments (Note 10)	4,271,283	7,610,716	–	–
Share warrants exercised (Note 24)	148,500	319,648	–	–
Share based payment (Note 26)	–	–	–	3,436,353
Effect of share options cancelled	–	–	–	(944,519)
Effect of warrants issued on loan note (Note 21)	–	–	–	21,125
Shares issued to Realm shareholders on conversion of exchangeable shares	393,265	689,866	–	–
Total transactions with owners	4,813,048	8,620,230	–	2,512,959
Balance at 31 December 2012	**61,471,639**	**131,511,450**	**3,894,117**	**7,974,447**

The accompanying notes on pages 46-72 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisín Fanning
Director

Fair value reserve €	Retained Earnings €	Attributable To Equity Holders €	Non-Controlling Interest €	Total equity €
–	(13,262,316)	121,226,592	–	121,226,592
–	15,599,885	15,599,885	–	15,599,885
–	–	915,281	–	915,281
–	15,599,885	16,515,166	–	16,515,166
–	–	39,116,318	–	39,116,318
–	–	5,480,794	–	5,480,794
–	–	1,101,164	–	1,101,164
–	–	2,792,554	–	2,792,554
–	748,211	–	–	–
–	–	–	5,685,721	5,685,721
–	–	3,162,540	(3,162,540)	–
–	748,211	51,653,370	2,523,181	54,176,551
–	**3,085,780**	**189,395,128**	**2,523,181**	**191,918,309**
–	3,085,780	189,395,128	2,523,181	191,918,309
–	460,667	460,667	–	460,667
–	–	2,596,068	–	2,596,068
(436,721)	–	(436,721)	–	(436,721)
(436,721)	460,667	2,620,014	–	2,620,014
–	–	11,881,999	–	11,881,999
–	–	468,148	–	468,148
–	–	3,436,353	–	3,436,353
–	748,788	(195,731)	–	(195,731)
–	–	21,125	–	21,125
–	–	1,083,131	(1,083,131)	–
–	748,788	16,695,025	(1,083,131)	15,611,894
(436,721)	**4,295,235**	**208,710,167**	**1,440,050**	**210,150,217**

Company statement of changes in equity

for the year ended 31 December 2012

	Share Capital €	Share Premium €
2011		
Balance at 1 January 2011	39,099,780	91,589,215
Total comprehensive income		
Loss for the year	–	–
Total comprehensive income for the year	–	–
Transactions with owners recognised directly in equity		
Contributions by and distributions to owners		
Issue of shares	14,204,217	24,912,101
Issue of shares related to business combinations (Note 27)	1,542,267	3,938,527
Share options and warrants exercised	663,921	437,243
Share based payment (Note 26)	–	–
Effect of share options exercised	–	–
Shares to be issued on Realm acquisition on conversion of exchangeable shares (Notes 25 and 27)	–	–
Shares issued to Realm shareholders on conversion of exchangeable shares	1,148,406	2,014,134
Total transactions with owners	17,558,811	31,302,005
Balance at 31 December 2011	**56,658,591**	**122,891,220**
2012		
Balance at 1 January 2012	56,658,591	122,891,220
Total comprehensive income for year		
Loss for the year	–	–
Total comprehensive income for year	–	–
Transactions with owners recognised directly in equity		
Contributions by and distributions to owners		
Issue of shares on acquisition of equity accounted investments (Note 10)	4,271,283	7,610,716
Share warrants exercised (Note 24)	148,500	319,648
Share based payment (Note 26)	–	–
Effect of share options cancelled	–	–
Effect of warrants issued on loan note (Note 21)	–	–
Shares issued to Realm shareholders on conversion of exchangeable shares	393,265	689,866
Total transactions with owners	4,813,048	8,620,230
Balance at 31 December 2012	**61,471,639**	**131,511,450**

The accompanying notes on pages 46-72 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisín Fanning
Director

Shares to be Issued €	Share based Payment Reserve €	Retained Earnings €	Total €
–	3,417,145	(11,203,291)	122,902,849
–	–	(9,750,530)	(9,750,530)
–	–	(9,750,530)	(9,750,530)
–	–	–	39,116,318
–	–	–	5,480,794
–	–	–	1,101,164
–	2,792,554	–	2,792,554
–	(748,211)	748,211	–
5,685,721	–	–	5,685,721
(3,162,540)	–	–	–
2,523,181	2,044,343	748,211	54,176,551
2,523,181	**5,461,488**	**(20,205,610)**	**167,328,870**
2,523,181	5,461,488	(20,205,610)	167,328,870
–	–	(2,447,046)	(2,447,046)
–	–	(2,447,046)	(2,447,046)
–	–	–	11,881,999
–	–	–	468,148
–	3,436,353	–	3,436,353
–	(944,519)	748,787	(195,732)
–	21,125	–	21,125
(1,083,131)	–	–	–
(1,083,131)	2,512,959	748,787	15,611,893
1,440,050	**7,974,447**	**(21,903,869)**	**180,493,717**

Consolidated statement of financial position
as at 31 December 2012

Assets	Note	2012 €	2011 €
Non-current assets			
Intangible assets	9	**165,390,968**	140,263,276
Equity accounted investments	10	**17,178,666**	3,026,864
Property, plant and equipment	11	**9,859,676**	9,278,608
Other non-current assets	12	**2,291,660**	816,928
Financial assets – Net Profit Interest	14	**38,761,256**	39,197,977
		233,482,226	192,583,653
Current assets			
Inventory	15	**590,211**	757,669
Trade and other receivables	16	**6,293,870**	8,064,400
Other financial assets	17	**928,452**	502,620
Cash and cash equivalents	18	**1,824,799**	26,197,963
		9,637,332	35,522,652
Total assets		**243,119,558**	228,106,305
Equity and liabilities			
Equity			
Called up share capital	24	**61,471,639**	56,658,591
Share premium account	24	**131,511,450**	122,891,220
Share based payments reserve	25/26	**7,974,447**	5,461,488
Currency translation reserve	25	**3,894,117**	1,298,049
Fair value reserve	25	**(436,721)**	–
Retained profit		**4,295,235**	3,085,780
Attributable to equity holders of the Group		**208,710,167**	189,395,128
Non-controlling interest	25	**1,440,050**	2,523,181
Total equity		**210,150,217**	191,918,309
Non-current liabilities			
Derivative	20	**1,884,251**	–
Provisions	23	**5,345,211**	5,345,211
Loans and borrowings	22	**–**	2,671,219
Deferred tax liabilities	29	**9,329,447**	9,329,447
		16,558,909	17,345,877
Current liabilities			
Trade and other payables	19	**7,732,906**	12,113,951
Loans and borrowings	21	**7,117,293**	5,177,144
Provisions	23	**1,560,233**	1,551,024
		16,410,432	18,842,119
Total liabilities		**32,969,341**	36,187,996
Total equity and liabilities		**243,119,558**	228,106,305

The accompanying notes on pages 46-72 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisín Fanning
Director

Company statement of financial position

as at 31 December 2012

Assets	Note	2012 €	2011 €
Non-current assets			
Property, plant and equipment	11	**6,515,475**	5,948,287
Financial assets	13	**121,661,518**	94,813,932
		128,176,993	100,762,219
Current assets			
Trade and other receivables	16	**67,833,615**	63,853,304
Cash and cash equivalents	18	**1,648,896**	16,289,530
		69,482,511	80,142,834
Total assets		**197,659,504**	180,905,053
Equity and liabilities			
Equity			
Called up share capital	24	**61,471,639**	56,658,591
Share premium account	24	**131,511,450**	122,891,220
Shares to be issued		**1,440,050**	2,523,181
Share based payments reserve	25/26	**7,974,447**	5,461,488
Retained loss		**(21,903,869)**	(20,205,610)
Attributable to equity shareholders		**180,493,717**	167,328,870
Non-current liabilities			
Derivative	20	**1,884,251**	–
Loans and borrowings	22	**–**	2,715,244
		1,884,251	2,715,244
Current liabilities			
Trade and other payables	19	**8,104,973**	6,034,203
Loans and borrowings	21	**7,176,563**	4,826,736
		15,281,536	10,860,939
Total liabilities		**17,165,787**	13,576,183
Total equity and liabilities		**197,659,504**	180,905,053

The accompanying notes on pages 46-72 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisín Fanning
Director

Consolidated statement of cash flows

for the year ended 31 December 2012

	Note	2012 €	2011 €
Cash flows from operating activities			
Profit before tax		**470,864**	15,635,229
Adjustments for:			
Depletion and depreciation		**135,930**	522,726
Finance expense	4	**2,549,620**	1,258,186
Finance income	5	**(3,170,110)**	(344,255)
Share based payments charge		**765,909**	866,038
Foreign exchange		**1,431,437**	(1,283,211)
Gain on assignment of Barryroe licence	2	**–**	(22,408,037)
Gain on disposal of Amstel Royalty Interest	2	**(5,336,923)**	–
Exploration costs written-off	9	**–**	2,684,290
Increase in other non-current assets	12	**(1,478,683)**	–
Decrease/(Increase) in stocks		**167,458**	(757,669)
Decrease/(Increase) in trade and other receivables		**2,888,703**	(6,030,610)
(Decrease)/Increase in trade and other payables		**(2,209,583)**	3,111,101
Share of loss of equity-accounted investments	10	**29,403**	4,715
Tax repaid/(paid)		**31,970**	(37,979)
Net cash (used) in operating activities		**(3,724,005)**	(6,779,476)
Cash flows from investing activities			
Expenditure on exploration and evaluation assets		**(26,459,867)**	(39,440,563)
Joint venture partner share of exploration costs		**719,951**	8,999,859
Purchase of property, plant and equipment		**(1,086,639)**	(7,353,565)
Interest received		**128,868**	318,206
Net cash acquired with subsidiary	27	**–**	5,216,546
(Increase)/Release of restricted cash		**(533,956)**	941,883
Acquisition of Equity Accounted Investments	10	**(1,872,778)**	–
Advances to Equity Accounted Investments	10	**(571,507)**	–
Proceeds of Amstel Royalty disposal		**9,898,125**	–
Net cash (used) in investing activities		**(19,777,803)**	(31,317,634)
Cash flows from financing activities			
Proceeds of issue of share capital, net of costs		**279,688**	6,302,541
Repayment of convertible loan		**–**	(2,150,000)
Proceeds from drawdown of other loans		**3,186,024**	–
Repayment of other loans		**(3,918,569)**	(7,360,572)
Interest paid		**(572,113)**	(370,798)
Net cash (used) in financing activities		**(1,024,970)**	(3,578,829)
Net (decrease) in cash and cash equivalents		**(24,526,778)**	(41,675,939)
Effect of foreign exchange fluctuation on cash and cash equivalents		**153,614**	705,243
Cash and cash equivalents at start of year	18	**26,197,963**	67,168,659
Cash and cash equivalents at end of year	18	**1,824,799**	26,197,963

The accompanying notes on pages 46-72 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisín Fanning
Director

Company statement of cash flows

for the year ended 31 December 2012

	Note	2012 €	2011 €
Cash flows from operating activities			
Loss before tax		**(2,439,283)**	(9,743,202)
Adjustments for:			
Depletion and depreciation		**92,565**	20,453
Finance income		**(2,879,043)**	(579,963)
Finance expense		**2,747,630**	1,221,245
Share based payments charge		**579,665**	743,415
Foreign exchange		**(294,610)**	1,170,301
Other gains		**(206,533)**	–
Decrease/(increase) in trade and other receivables		**524,215**	(2,852,873)
(Decrease)/increase in trade and other payables		**(1,784,349)**	1,402,406
Tax repaid/(paid)		**15,404**	(33,354)
Net cash (used) from operating activities		**(3,644,339)**	(8,651,572)
Cash flows from investing activities			
Acquisition of exploration and evaluation assets		**–**	(1,244,801)
Acquisition of property, plant and equipment		**(659,753)**	(3,624,440)
Interest received		**121,438**	289,028
Advances to subsidiary companies		**(13,376,366)**	(34,243,937)
Payment to acquire financial assets		**–**	(2,445,966)
Net cash (used) in investing activities		**(13,914,681)**	(41,270,116)
Cash flows from financing activities			
Proceeds of issue of share capital, net of costs		**279,688**	6,302,541
Repayment of convertible loan		**–**	(2,150,000)
Proceeds from drawdown of other loans		**3,186,024**	–
Repayment of other loans		**–**	(3,956,014)
Interest paid		**(770,122)**	(1,206,364)
Net cash generated from/(used) in financing activities		**2,695,590**	(1,009,837)
Net (decrease) in cash and cash equivalents		**(14,863,430)**	(50,931,525)
Effect of foreign exchange fluctuation on cash and cash equivalents		**222,796**	641,029
Cash and cash equivalents at start of year	18	**16,289,530**	66,580,026
Cash and cash equivalents at end of year	18	**1,648,896**	16,289,530

The accompanying notes on pages 46-72 form an integral part of these financial statements.

On behalf of the Board

Paul Sullivan
Director

Oisín Fanning
Director

Notes to financial statements
for the year ended 31 December 2012

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	
	2012 €	2011 €	**2012 €**	2011 €	**2012 €**	2011 €
Total revenue	**330,330**	–	**–**	–	**1,037,444**	1,020,272
Segment (loss)/profit before income tax	**(21,101)**	(155,232)	**(52,801)**	(2,982)	**398,524**	23,295,137
Exploration and evaluation assets	**98,429,454**	74,035,824	**40,834,921**	37,649,203	**18,460,806**	18,094,663
Equity accounted investments	**17,178,666**	3,026,864	**–**	**–**	**–**	–
Total segment assets*	**122,551,323**	84,805,769	**48,896,393**	45,202,516	**57,383,308**	59,379,779
Capital expenditure^	**38,134,498**	72,899,394	**3,551,163**	10,796,104	**366,143**	5,360,499
Segment liabilities	**(14,072,740)**	(13,530,479)	**(302,446)**	(748,228)	**(6,370,598)**	(6,850,789)

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, the provision of seismic acquisition services in Poland and residual royalty income from leasehold interests in the U.S.A.

* Total segment assets for Ireland includes the Barryroe Net Profit Interest as detailed in Note 14.

^ 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 and equity accounted investments.

Corporate includes head office balances and activities that are not directly attributable to any other segment.

2. Other income

Group	**2012 €**	2011 €
Assignment of Rockall Licence (i)	**–**	3,492,433
Assignment of Barryroe licence (Note 14)	**–**	22,408,037
Gain on disposal of Amstel Royalty Interest (ii)	**5,336,923**	–
Proceeds from sale of seismic data (North America)	**–**	87,590
Other	**2,108**	2,144
	5,339,031	25,990,204

(i) Assignment of Rockall Licence
In February 2011, OMV paid £3 million to San Leon when it withdrew 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 such that San Leon now holds a 100% interest in this licence.

(ii) Gain on disposal of Amstel Royalty Interest
In June 2012, San Leon disposed of its 2.5% royalty interest in the Amstel Field (Holland), for cash proceeds of €9.9 million realising a gain on disposal of €5.34 million.

	Holland		Albania		Other areas		Corporate#		Total	
	2012 €	2011 €	**2012 €**	2011 €	**2012 €**	2011 €	**2012 €**	2011 €	**2012 €**	2011 €
	–	–	**–**	–	**2,816**	19,382	**–**	–	**1,370,590**	1,039,654
	5,336,354	(648)	**(15,216)**	(361)	**(175,805)**	(2,840,118)	**(4,999,091)**	(4,660,567)	**470,864**	15,635,229
	–	4,561,202	**5,050,841**	3,580,258	**2,614,946**	2,342,126	**–**	–	**165,390,968**	140,263,276
	–	–	**–**	–	**–**	–	**–**	–	**17,178,666**	3,026,864
	–	4,561,202	**5,054,071**	3,600,284	**3,670,765**	3,312,038	**5,563,698**	27,244,717	**243,119,558**	228,106,305
	–	–	**1,470,583**	3,099,955	**272,821**	192,682	**294,758**	56,730	**44,089,966**	92,405,364
	–	–	**(126,253)**	(26,637)	**(95,687)**	(73,945)	**(12,001,617)**	(14,957,918)	**(32,969,341)**	(36,187,996)

3. Statutory information

(a) Group

	2012 €	2011 €
The profit for the financial year is stated after charging/(crediting):		
Depreciation of property, plant and equipment	**135,930**	83,272
(Gain) on foreign currencies	**(258,593)**	(477,967)
Operating lease rentals		
– Premises	**1,027,451**	529,168
– Motor vehicles	**170,848**	58,793
Pre-licence expenditure	**154,878**	294,288
Acquisition costs of Realm Energy	**–**	2,433,665

Notes to financial statements continued

for the year ended 31 December 2012

3. Statutory information continued

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

	2012 €	2011 €
Audit Services		
Group Auditor – KPMG Ireland	**62,000**	50,000
Group Auditor – KPMG Poland	**12,000**	–
	74,000	50,000
Tax and non-assurance services		
Group Auditor – KPMG Ireland	**8,500**	–
Other network firm – KPMG	**6,000**	11,525
	14,500	11,525
Total		
Group Auditor – KPMG Ireland	**70,500**	50,000
Other network firm – KPMG	**18,000**	11,525
	88,500	61,525

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

(c) Company

	2012 €	2011 €
The loss for the financial year is stated after charging/(crediting):		
Depreciation of property, plant and equipment	**92,565**	20,453
(Gain)/loss on foreign currencies	**(2,515,860)**	1,314,007
Operating lease rentals – premises	**725,106**	450,549
Auditor's remuneration – audit services	**25,000**	25,000
Auditor's remuneration – other services	**8,500**	–
Pre-licence expenditure	**154,878**	294,288

As permitted by Section 148 (8) of the Companies Act 1963, the Company Income Statement and Statement of Comprehensive Income have not been separately disclosed in these financial statements. A loss of €2,447,046 (2011: €9,750,530) has been recorded in the parent company.

4. Finance expense

	2012 €	2011 €
On loans and overdraft	**578,896**	1,072,118
Finance arrangement costs	**86,473**	186,068
Fair value charge on issue of warrants to non-employee (Note 20)	**1,884,251**	–
	2,549,620	1,258,186

5. Finance income

	2012 €	2011 €
Deposit interest received	**96,008**	344,255
Interest on other loan	**35,947**	–
Contingent consideration receivable (i)	**1,012,986**	–
Contingent consideration payable written off (ii)	**2,025,169**	–
	3,170,110	344,255

(i) Contingent consideration receivable
Contingent consideration receivable relates to the recognition of additional proceeds receivable on the disposal by San Leon Energy B.V. of its subsidiary, Island Netherlands B.V. in May 2008. The consideration is calculated based on the value of unrecognised tax losses at the date of disposal which were transferred with Island Netherlands B.V., and which is now recoverable by San Leon Energy B.V. by way of offset against terminal payments due on its loan to Delta Hydrocarbons B.V. in accordance with the provisions of the sale and purchase agreement.

(ii) Contingent consideration payable written off
The contingent consideration payable related to warrants granted to shareholders of Realm Energy under the terms of the acquisition completed in November 2011 (see Note 27). The contingent consideration was written off in respect of warrants which expired unexercised during the year.

6. Personnel expenses

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

	2012 Number	2011 Number
Directors	**6**	5
Administration	**15**	10
Technical	**16**	16
Seismic crew	**49**	–
	86	31

Employment costs (including Directors)

	2012 €	2011 €
Wages and salaries (excluding Directors)	**3,979,236**	1,419,647
Directors' salaries	**2,795,679**	2,328,361
Social welfare costs	**469,999**	151,496
Directors' fees	**542,575**	564,922
Share based payments (including Directors)	**3,302,392**	2,432,218
	11,089,881	6,896,644

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

During the year, €8,507,922 (2011: €5,172,921) was capitalised in exploration and evaluation assets in respect of Group employment costs above including €2,717,371 (2011: €1,926,516) 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 €194,027 (2011: €178,000).

Notes to financial statements continued

for the year ended 31 December 2012

7. Income tax expense

	2012 €	2011 €
Current tax		
Current year income tax expense	**10,197**	35,344
Deferred tax		
Origination and reversal of temporary differences	**–**	11,222,410
Recognition of previously unrecognised tax losses	**–**	(11,222,410)
Total income tax expense	**10,197**	35,344

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 before tax is as follows:

	2012 €	2011 €
Profit before income tax	**470,864**	15,635,229
Tax on profit at applicable Irish corporation tax rate of 25% (2011: 25%)	**117,716**	3,908,807
Effects of:		
Income not taxable	**(2,137,924)**	(5,602,009)
Expenses not deductible	**345,936**	1,382,884
Losses utilised in the year	**(113,315)**	(1,004,013)
Income tax withheld	**8,391**	6,198
Excess losses carried forward	**1,789,393**	1,343,477
Tax charge for the year	**10,197**	35,344

8. Earnings per share

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

	2012 €	2011 €
Profit for the year	**460,667**	15,599,885

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

	Number of shares	Number of shares
In issue at start of year	**1,133,171,813**	781,995,611
Effect of shares issued related to a business combination (Note 27)	**5,780,261**	41,191,907
Effect of share options and warrants exercised	**756,250**	7,632,018
Effect of shares issued on the acquisition of equity accounted investments	**7,118,805**	–
Effect of shares issued in the year	**–**	14,137,446
Effect of outstanding exchangeable shares	**16,239,679**	5,075,248
Weighted average number of Ordinary shares in issue (basic)	**1,163,066,808**	850,032,230
Basic earnings per ordinary share (cent)	**0.04**	1.84

Diluted earnings per share
Diluted earnings per share is calculated by dividing the profit 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:

	2012 €	2011 €
Profit for the year (diluted)	**460,667**	15,599,885

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

	Number of shares	Number of shares
Basic weighted average number of shares in issue during the year	**1,163,066,808**	850,032,230
Effect of share options and warrants in issue	**18,811,297**	33,784,071
	1,181,878,105	883,816,301
Diluted earnings per ordinary share (cent)	**0.04**	1.77

At 31 December 2012, a total of 152,599,731 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.

Notes to financial statements continued

for the year ended 31 December 2012

9. Intangible assets

Group	Exploration and evaluation assets €	Royalty interests €	Total €
Cost and net book value			
At 1 January 2011	71,503,652	4,561,202	76,064,854
Additions	32,311,681	–	32,311,681
Acquisitions through business combinations (Note 27)	49,804,747	–	49,804,747
Exchange rate adjustment	1,556,224	–	1,556,224
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**
Additions (ii)	29,030,660	–	29,030,660
Exchange rate adjustment	658,234	–	658,234
Disposal of Royalty Interest (Note 2)	–	(4,561,202)	(4,561,202)
At 31 December 2012	**165,390,968**	**–**	**165,390,968**

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 in 2011 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) This is the net amount incurred by San Leon and excludes amounts attributable to joint operating partners of €0.72 million (2011: €8.99 million).

The Directors have considered the carrying value at 31 December 2012 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 on-going appraisals for each area, as described in the Operating Review. Based on internal assessments, the Directors are satisfied that there are no impairments 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	2012 €	2011 €
Cost and net book value		
At 1 January	**3,026,864**	–
Acquisitions of interests*	**13,754,775**	2,883,863
Exchange rate adjustment	**(145,077)**	147,716
Advances to equity accounted investments	**571,507**	–
Share of loss of equity accounted investments	**(29,403)**	(4,715)
At 31 December	**17,178,666**	3,026,864

* Including acquisition costs of €1,872,778 in 2012 (2011: Nil).

In June 2012, San Leon purchased a 75% interest in three LLPs, namely Olesnica LLP, Wielun LLP and South Prabuty LLP, from Hutton Energy Plc. The LLPs are the 100% title holders of the following Polish exploration concession areas: 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. The purchase consideration of €11.88 million (USD15 million) was payable by the issue of new Ordinary shares in San Leon.

The registered office for each of the LLPs is c/o WFM Legal Services Limited, 15 Appold Street, London, ECZA ZHB, England and their reporting date is 31 December.

As part of the acquisition of Realm Energy in 2011, San Leon acquired a 50% equity interest in each of Joyce Investments Sp. z o.o. and Maryani Investments Sp. z o.o., who in turn are the titleholders 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.

A summary of the financial information of the equity investments is detailed below.

Equity Interest	Olesnica LLP 75%	South Prabuty LLP 75%	Wielun LLP 75%	Joyce Investments 50%	Maryani Investments 50%	Total
	€	€	€	€	€	€
Non-current assets	75,150	741,703	108,258	753,881	619,679	2,298,671
Current assets	17,644	170,942	26,239	112,394	138,393	465,612
Current liabilities	(17,360)	(21,747)	(20,459)	(900,593)	(695,902)	(1,656,061)
Non-current liabilities	–	–	–	(83,000)	(957,012)	(1,040,012)
Net assets/(liabilities)	75,434	890,898	114,038	(117,318)	(894,842)	68,210
Group share of net assets/(liabilities)	56,576	668,174	85,529	(58,659)	(447,421)	304,199
Group carrying value at reporting date	**4,876,226**	**6,311,820**	**2,612,023**	**2,979,397**	**399,200**	**17,178,666**
Loss for the year	**(926)**	**(867)**	**(808)**	**(50,044)**	**(4,859)**	**(57,504)**
Group share of loss for the year	**(695)**	**(650)**	**(606)**	**(25,022)**	**(2,430)**	**(29,403)**

The above interests are accounted for as equity accounted interests as San Leon does not have control over the entities, which are governed under joint operating agreements ("JOAs") requiring the approval of both parties to the JOAs in respect of all operating decisions.

Based on internal assessments, the Directors are satisfied that there are no impairments, but recognise that the future realisation of the equity accounted investments is dependent on future successful exploration and appraisal activities and subsequent production of oil and gas reserves.

Notes to financial statements continued

for the year ended 31 December 2012

11. Property, plant and equipment

Group	Plant & equipment €	Asset under construction €	Office equipment €	Motor vehicles €	Total €
Cost					
At 1 January 2011	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
Additions	444,560	365,446	384,666	109,856	1,304,528
Exchange rate adjustment	310,026	–	22,867	21,242	354,135
At 31 December 2012	4,141,696	6,261,093	778,961	356,469	11,538,219
Depreciation					
At 1 January 2011	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
Exchange rate adjustment	28,655	–	10,028	2,022	40,705
Charge for the year	816,033	–	155,738	65,119	1,036,890
At 31 December 2012	1,246,632	–	343,323	88,588	1,678,543
Net book values					
At 31 December 2012	**2,895,064**	**6,261,093**	**435,638**	**267,881**	**9,859,676**
At 31 December 2011	2,985,166	5,895,647	193,871	203,924	9,278,608

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

Company	Asset under construction €	Office equipment €	Total €
Cost			
At 1 January 2011	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
Additions	365,446	294,307	659,753
At 31 December 2012	6,264,831	384,792	6,649,623
Depreciation			
At 1 January 2011	–	21,130	21,130
Charge for the year	–	20,453	20,453
At 31 December 2011	–	41,583	41,583
Charge for the year	–	92,565	92,565
At 31 December 2012	–	134,148	134,148
Net book values			
At 31 December 2012	**6,264,831**	**250,644**	**6,515,475**
At 31 December 2011	5,899,385	48,902	5,948,287

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

12. Other non-current assets

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
Deposits on Spanish oil and gas concession applications (i)	**735,596**	734,372	**–**	–
Deposits on Spanish oil and gas concessions (i)	**77,381**	82,556	**–**	–
Seismic acquisition costs prepayments (ii)	**1,478,683**	–	**–**	–
	2,291,660	816,928	**–**	–

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

(ii) In July 2012, San Leon reached agreement with Celtique Energy Poland Sp. z o.o. ("Celtique") to acquire a 50% working interest in two Polish concessions in the Permian Basin in exchange for completion of a work programme whereby San Leon will acquire two 3D seismic surveys on the concessions, plus committing to drilling a well in Block 243 targeting the Permian Main Dolomite. The concession areas to be jointly developed with Celtique are Block 243 (236,480 acres) and Laski (60,047 acres). San Leon commenced its seismic programme on Block 243 prior to the year end, and the seismic costs incurred to 31 December 2012 have been recognised as a non-current asset pending the formal establishment of the joint venture entities and completion of regulatory approval on the concession transfers.

13. Financial assets

Company	2012 €	2011 €
Investment in subsidiary undertakings at cost:		
Balance at beginning of year	**94,813,932**	43,074,317
Additions (i)	**24,186,630**	49,741,051
Capital contribution in respect of share options	**2,660,956**	1,998,564
Balance at end of year	**121,661,518**	94,813,932

(i) This addition relates to the transfer of San Leon Energy B.V. from Island Oil and Gas Limited to San Leon Energy plc.

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for the year ended 31 December 2012

13. Financial assets continued

At 31 December 2012, the Company had the following principal subsidiaries, all of which are wholly owned through holding all of the issued Ordinary shares of the entities with the exception of San Leon Canada which has a non-controlling interest due to the exchangeable shares issued on the Realm acquisition (Note 27).

Name	Registered Office
Directly held:	
Island Oil & Gas Limited	1st Floor, Wilton House, Wilton Place, Dublin 2
San Leon Energy B.V.	2317 KJ Leiden, Satijnvlinder, The Netherlands
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, U.S.A.
0921642 B.C. Unlimited Liability Company	Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC V6C 2X8
Indirectly held:	
Liesa Energy Sp. z o.o.	ul. Mokotowska 1, 00-640 Warsaw, Poland
Oculis Energy Sp. z o.o.	ul. Mokotowska 1, 00-640 Warsaw, Poland
Vabush Energy Sp. z o.o.	ul. Mokotowska 1, 00-640 Warsaw, Poland
Gora Energy Resources Sp. z o.o.	ul. Mokotowska 1, 00-640 Warsaw, Poland
NovaSeis Sp. z o.o.	ul. Mokotowska 1, 00-640 Warsaw, Poland
Helland Energy Sp. z o.o.	ul. Mokotowska 1, 00-640 Warsaw, Poland
San Leon Services Sp. z o.o.	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 Durresi B.V.	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 (formerly Realm Energy)	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 (BVI) 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
San Leon Czersk Sp. z o.o.	ul. Mokotowska 1, 00-640 Warsaw, Poland
San Leon Praszka Sp. z o.o.	ul. Mokotowska 1, 00-640 Warsaw, Poland
San Leon Wschowa Sp. z o.o.	ul. Mokotowska 1, 00-640 Warsaw, Poland
San Leon Rawicz Sp. z o.o.	ul. Mokotowska 1, 00-640 Warsaw, Poland
San Leon Wielun B.V.	2317 KJ Leiden, Satijnvlinder, The Netherlands
San Leon Olesnica B.V.	2317 KJ Leiden, Satijnvlinder, The Netherlands
San Leon South Prabuty B.V.	2317 KJ Leiden, Satijnvlinder, The Netherlands

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 Services Sp. z o.o. which provide employment and administrative services to the Group.

14. Financial assets – Net Profit Interest

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
Barryroe 4.5% Net Profit Interest				
At 1 January	**39,197,977**	39,197,977	**–**	–
Exchange rate adjustment	**(436,721)**	–	**–**	–
At 31 December	**38,761,256**	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 in exchange for a 4.5% Net Profit Interest ("NPI") in 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 USD 1.14 billion on a P50 case and NPV at a 10% discount rate.

The Directors note that Providence announced an update on the Barryroe licence area in April 2013 which stated "Following acquisition and interpretation of the new 2011 3D seismic data together with the subsequent drilling and testing of the 48/24-10z Barryroe appraisal well in 2012, Providence retained the services of Netherland Sewell & Associates Inc. (NSAI) to carry out a third party contingent resource audit (CPR) of the in place hydrocarbon and recoverable resources for the Basal Wealden oil reservoir. NSAI have reported that the Basal Wealden oil reservoir has a 2C in-place gross on-block volume of 761 MMBO with recoverable resources of 266 MMBO and 187 BCF of associated gas, based on a 35% oil recovery factor. A third party (CPR) audit of the overlying Middle Wealden, which was carried out by RPS Energy (RPS) in 2011, reported a 2C in-place gross on-block volume of 287 MMBO with technically recoverable resources of 45 MMBO and 21 BCF of associated gas, based on a 16% oil recovery factor. The total combined audited gross on block 2C recoverable resources at Barryroe therefore amount to 346 MMBOE, comprising 311 MMBO and 207 BCF". The full text of the Providence announcement is set out on our website.

Notwithstanding the increased resource estimates set out by the licence operator, no further information has been made available regarding the revised development plan or development costs which are key inputs into any valuation model. On that basis the RPS report valuation remains the best estimate of fair value at year end. However having considered all available data and announcements made by the operator, 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 dependant on future successful exploration and appraisal activities by the operator and subsequent production of oil reserves.

15. Inventories

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
Spare parts and consumables	**590,211**	757,669	**–**	–
	590,211	757,669	**–**	–

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

Notes to financial statements continued
for the year ended 31 December 2012

16. Trade and other receivables

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
Amounts falling due within one year:				
Trade receivables from joint operating partners	**202,088**	1,318,341	**2,750**	38,148
Amounts owed by group undertakings	**–**	–	**65,299,246**	60,791,809
VAT and other taxes refundable	**1,693,244**	2,075,922	**5,340**	41,400
Other debtors	**1,665,155**	1,458,196	**1,101,185**	976,229
Director loan (Note 30)	**1,318,858**	1,932,488	**1,318,858**	1,932,488
Prepayments and accrued income	**1,414,525**	1,279,453	**106,236**	73,230
	6,293,870	8,064,400	**67,833,615**	63,853,304

17. Other financial assets

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
Restricted cash at bank	**928,452**	502,620	**–**	–
	928,452	502,620	**–**	–

Restricted cash at bank relates to deposit accounts held in support of bank guarantees required under the Moroccan exploration licences, Zag and Tarfaya held by the Group. The increase in the year relates to a new guarantee on the Tarfaya licence following a decision to proceed to the next exploration phase.

18. Cash and cash equivalents

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
Cash at bank	**1,824,799**	26,197,963	**1,648,896**	16,289,530
	1,824,799	26,197,963	**1,648,896**	16,289,530

19. Trade and other payables

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
Current				
Trade payables	**4,975,802**	6,135,572	**213,982**	1,163,569
Amounts owed to group undertaking	**–**	–	**6,599,930**	543,352
PAYE/PRSI	**640,330**	154,389	**97,401**	69,690
Other creditors	**132,740**	290,336	**–**	1,416
Contingent consideration (Note 27)	**–**	2,213,629	**–**	2,213,629
Accruals and deferred income	**1,984,034**	3,320,025	**1,193,660**	2,042,547
	7,732,906	12,113,951	**8,104,973**	6,034,203

20. Derivative

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
Non-current				
Derivative	**1,884,251**	–	**1,884,251**	–
	1,884,251	–	**1,884,251**	–

San Leon issued 11 million and 11.125 million warrants to a non-employee with an exercise price of £0.11 for a period of 3.9 years and 4.6 years respectively. The warrants replaced instruments previously issued in connection with a convertible loan note issued to the Company. The fair value of the warrants issued has been calculated as a derivative liability of €1.88 million based on the valuation assumptions set out in Note 26.

21. Loans and borrowings

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
Current				
Other loans (i)	**3,251,326**	350,785	**3,251,326**	–
Delta Hydrocarbons B.V. (ii)	**3,865,967**	4,826,359	**–**	–
Amounts due to group undertakings	**–**	–	**3,925,237**	4,826,736
	7,117,293	5,177,144	**7,176,563**	4,826,736

(i) Other loans at 31 December 2011 relates to an amount of USD420,000 advanced to Island Oil and Gas by Longreach. The loan was interest free and repaid in full in 2012.

Other loans at 31 December 2012 relates to two short term loan facilities of GBP£800,000 and USD3,224,000. The GBP£800,000 is a 3 month loan from Solix Ventures Limited with an interest rate of 1% per calendar month and a 3% arrangement fee. This loan was repaid post year end.

The USD3,224,000 is a 2 month loan facility from YA Global Masters SPV Limited with a 0% interest rate and an arrangement fee of 10%. The lender was also granted 2,432,084 warrants with a three year term and an exercise price of £0.123351. These warrants had a fair value of €84,500 at date of issue of which €21,125 has been recognised as a finance cost for the period from date of drawdown of loan to 31 December 2012. This loan was repaid post year end.

(ii) The Delta loan was acquired as part of the acquisition of Island Oil & Gas and relates to a loan of USD10 million advanced by Delta to Island in May 2008.

The loan is being repaid by instalment over a thirty month period which commenced in April 2011. The interest rate is 11% per annum.

Notes to financial statements continued

for the year ended 31 December 2012

22. Loans and borrowings

	Group 2012 €	Group 2011 €	**Company 2012 €**	Company 2011 €
Non-current				
Delta Hydrocarbons B.V.	**–**	2,671,219	**–**	–
Amounts due to group undertakings	**–**	–	**–**	2,715,244
	–	2,671,219	**–**	2,715,244

23. Provisions for liabilities

Group	Decommissioning costs €	Other €	Total €
At 1 January 2012	5,345,211	1,551,024	6,896,235
Exchange rate adjustment	–	9,209	9,209
At 31 December 2012	**5,345,211**	**1,560,233**	**6,905,444**
Current	–	1,560,233	1,560,233
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 development costs of three other exploration wells in the Celtic Sea. The fair value has been determined based on independent third party reports prepared. The Directors do not expect decommissioning of the Seven Heads gas field infrastructure to commence within 12 months of the reporting date on the basis that the field is currently in production and is expected to continue in production as part of the overall gas production operations on other blocks in the Celtic Sea which utilises the existing infrastructure. However, as the level of the expected future cash flows on the Seven Heads Field has reached the threshold which triggers the decommissioning provisions in the production sharing agreement, the Directors consider it appropriate to provide for the fair value without discounting.

Other provision

Certain Realm Energy shareholders exercised rights of dissent under Canadian law not to accept the terms of the acquisition (Note 27). 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. The timing of any resolution of this matter is unknown at present.

24. Share capital – Group and Company

	2012 **€**	2011 €
Authorised equity		
2,500,000,000 (2011: 1,500,000,000) Ordinary shares of €0.05 each	**125,000,000**	75,000,000
	125,000,000	75,000,000

Issued, called up and fully paid:

	Number of Ordinary shares	Share capital €	Share premium €
At 1 January 2012	1,133,171,813	56,658,591	122,891,220
Issue of shares to non-controlling interest	7,865,318	393,265	689,866
Issue of shares on exercise of warrants	2,970,000	148,500	319,648
Issue of shares on acquisition of interests in equity accounted assets (Note 10)	85,425,654	4,271,283	7,610,716
At 31 December 2012	1,229,432,785	61,471,639	131,511,450

During 2012, the Company issued 7,865,318 €0.05 Ordinary shares at GBP £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.

During 2012, the Company issued 2,970,000 €0.05 Ordinary shares at CAD$0.121 in respect of the exercise of warrants.

On 27 November 2012, the Company issued 85,425,654 €0.05 Ordinary shares at £0.1124 as consideration for the acquisition of a 75% interest in three Limited Liability Partnerships, Olesnica LLP, Wielun LLP and South Prabuty LLP at a cost of €11,881,999 (USD15 million).

25. 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 and warrants 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 (see Note 27). 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.

Available for sale fair value reserve
The available for sale fair value reserve comprises fair value adjustments arising on the Group's available for sale financial asset (Note 14).

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for the year ended 31 December 2012

26. Share based payments

As at 31 December 2012, the Group had one share based payment scheme in place for executives and senior employees of the Group. In accordance with the provisions of the plan, executives and senior employees could be granted options to purchase Ordinary shares.

Under the rules of the scheme each share option/warrant converts into one Ordinary share of San Leon Energy plc on exercise and options/warrants did not carry rights to dividends nor voting rights. Options/warrants 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.

During the first quarter of 2013, this scheme was replaced by a more formal unapproved Share Option Plan, which will govern all future awards of share options made by San Leon. All employees, and certain directors and consultants, may from time to time be eligible to receive a discretionary bonus to be awarded in the form of options over San Leon Ordinary shares. Historic options in respect of San Leon shares will continue to be governed by the terms and conditions set out in the historic share based payment scheme.

The Group's equity share options/warrants 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 €3,457,478 (2011: €2,792,554).

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

	2012		2011	
	Number of options/ warrants	**Weighted average exercise price**	Number of options/ warrants	Weighted average exercise price
Balance at beginning of the financial year	**246,934,545**	**£0.189**	122,688,792	£0.201
Granted during the year	**64,862,084**	**£0.105**	40,910,000	£0.165
Option and warrant obligations assumed on Realm acquisition (Note 27)	**–**	**–**	114,349,398	£0.182
Forfeited during the financial year	**–**	**–**	(500,000)	£0.370
Cancelled during the financial year	**(34,425,000)**	**£0.2414**	–	–
Exercised during the financial year	**(2,970,000)**	**£0.075**	(13,188,645)	£0.099
Expired during the financial year	**(90,011,898)**	**£0.1745**	(17,325,000)	£0.131
Balance at end of the financial year	**184,389,731**	**£0.153**	246,934,545	£0.189
Exercisable at end of the financial year	**127,619,731**	**£0.138**	198,774,545	£0.175

The range of exercise prices of outstanding options/warrants at year end is £0.04-£0.37 (2011: £0.043-£0.40).

The weighted average remaining contractual life for options/warrants outstanding at 31 December 2012 is 4.01 years (2011: 3.03 years).

The weighted average share price of exercised options/warrants at the date of exercise during the year ended 31 December 2012 was £0.094 (2011: £0.257).

26. 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 2012 and 2011:

	2012	2011
Weighted average fair value of options granted during year	**£0.059**	£0.046
Weighted average share price of options at date of grant	**£0.110**	£0.135
Dividend yield	**0%**	0%
Expected volatility	**65%-70%**	70%
Risk-free interest rate	**0.5%-1.4%**	1.2%-2.6%
Expected option life	**7-10 years**	7-10 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.

27. Acquisition of subsidiaries

No acquisitions of subsidiaries were completed in 2012.

Year ended 31 December 2011 – Realm Energy Acquisition
San Leon Energy plc acquired 100% of Realm Energy ("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 San Leon believed that the acquisition of Realm brought together two complementary portfolios which would significantly increase San Leon'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. The enlarged group has benefited from its combined operational and technical expertise as well as in-country experience this has helped to accelerate work programmes and de-risk the acreage. The increased focus on shale by San Leon is further enhanced through the addition of two successful licence applications that Realm has, submitted in Spain, namely Cronos and Aquiles. These licences were awarded in May 2013.

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 exchangeable on a one-for-one basis directly for Ordinary shares in the capital of San Leon, 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 website.

The fair values of the assets and liabilities acquired as detailed below were originally calculated on a provisional basis and any amendment to these acquisition fair values within the twelve month period post acquisition would be provided for in the 2012 financial period in accordance with the provisions of IFRS3: Business Combinations. No changes to the acquisition accounting were made in 2012.

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27. 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			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 (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 shares on substantially equivalent terms and conditions. The fair value of these commitments assumed by San Leon on the acquisition date as detailed above 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 26.

(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 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 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.

28. Commitments

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

	Property €	Motor vehicles €	Total €
Payable:			
Within one year	978,438	168,511	1,146,949
Between one and five years	3,930,889	162,871	4,093,760
Over five years	666,667	–	666,667
	5,575,994	331,382	5,907,376

(b) Exploration, evaluation and development activities
The Group has commitments of approximately €13 million for 2013 to contribute to its share of exploration and evaluation expenditure in respect of exploration licences and concessions held.

29. Deferred tax

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012 €	2011 €	**2012 €**	2011 €	**2012 €**	2011 €
Exploration and evaluation assets	**–**	–	**(9,329,447)**	(9,329,447)	**(9,329,447)**	(9,329,447)
Financial assets – Net Profit Interest	**–**	–	**(11,222,410)**	(11,222,410)	**(11,222,410)**	(11,222,410)
Tax losses recognised	**11,222,410**	11,222,410	**–**	–	**11,222,410**	11,222,410
	11,222,410	11,222,410	**(20,551,857)**	(20,551,857)	**(9,329,447)**	(9,329,447)

Unrecognised deferred tax asset

	2012 €	2011 €
Tax losses	**7,235,858**	6,993,064
Capitalised expenditure	**15,454,008**	9,400,053
	22,689,866	16,393,117

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 €842,000 of tax losses in Canada which expire in 2028.

Unrecognised deferred tax liabilities
At 31 December 2012 a deferred tax liability of €2,977,636 (2011: €540,000) for temporary differences of €15,671,769 (2011: €2,842,250) 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.

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30. Related party transactions

Outpost Properties Limited ("Outpost")
San Leon and Outpost have common Directors namely, Oisín Fanning and Paul Sullivan. San Leon entered into a lease agreement for a premises owned by Outpost with effect from 1 September 2010 for a ten year period at an annual rent of €250,000. The rent expense recognised in the income statement under this lease agreement in 2012 was €250,000.

Mr. Oisín Fanning
In 2011, 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 remaining term of 14 years and the option fee is refundable when the Company either exercises or terminates the option. In 2012, Mr. Fanning was paid £164,821 rent for use of this property by the Company.

At 1 January 2012, Mr. Fanning owed San Leon €1,932,488 in respect of a short term loan advanced to him at an interest rate of 2% per annum. This was the maximum outstanding director loan balance during the year and represented 1.1% of the Company's net assets. This loan was repaid in full in June 2012 including accrued interest of €35,394. He was subsequently advanced a short term loan of €1,318,858 which is the outstanding amount at 31 December 2012. The loan is repayable by 14 September 2013. Interest is payable on this loan at 2% per annum, with €8,672 accrued at 31 December 2012.

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:

	2012 **€**	2011 €
Salary and emoluments	**2,796,441**	2,336,554
Fees	**542,575**	564,922
Pension	**206,627**	178,000
Share based payment expense	**2,638,530**	1,937,375
	6,184,173	5,016,851

Company
Transactions with subsidiaries
Transactions between San Leon and its subsidiaries, which are related parties, have been eliminated on consolidation. At 31 December 2012, the Company is owed €65,299,246 (2011: €60,791,809) by its subsidiaries in respect of funds advanced to and expenses discharged by the Company on their behalf. The Company owes €10,525,167 (2011: €8,085,332) to subsidiaries in funds received and services provided by Group companies. All amounts due between the Company and its subsidiaries have repayment terms of less than one year.

31. 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

31. Financial instruments and financial risk management continued

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 Moroccan Dirhams 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 2012 and 2011, the Group did not utilise either forward currency contracts or other derivatives to manage foreign currency risk.

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

	Denominated in GBP£ €	Denominated in US$ €	Denominated in PLN €	Denominated in CAD €
Trade and other receivables (Note 16)	1,799,983	1,890	2,831,189	23,580
Trade and other payables (Note 19)	(1,335,776)	(664,695)	(1,607,355)	(11,290)
Provisions (Note 23)	–	–	–	(1,560,233)
Loans and borrowings (payable within one year) (Note 21)	(998,692)	(6,118,601)	–	–
Cash and cash equivalents (Note 18)	630,900	180,557	41,302	82,316
Other financial assets (Note 17)	–	928,452	–	–
Loans and borrowings (payable after one year) (Note 22)	–	–	–	–
Total 2012	**96,415**	**(5,672,397)**	**1,265,136**	**(1,456,627)**
Total 2011	8,252,833	(4,373,715)	3,406,779	(1,296,775)

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

	Denominated in GBP£ €	Denominated in US$ €	Denominated in PLN €	Denominated in CAD €
Trade and other receivables (Note 16)	849,880	–	34,703,926	–
Trade and other payables (Note 19)	(685,507)	(64,799)	(23,454)	(665)
Loans and borrowings (payable within one year) (Note 21)	(998,692)	(2,252,634)	–	–
Cash and cash equivalents (Note 18)	629,373	157,947	2,045	2
Loans and borrowings (payable after one year) (Note 22)	–	–	–	–
Total 2012	**(204,946)**	**(2,159,486)**	**34,682,517**	**(663)**
Total 2011	5,442,157	(5,682,343)	18,799,748	(4,209,916)

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

	2012		2011	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**0.8109**	**0.8161**	0.8679	0.8353
US Dollars	**1.2848**	**1.3194**	1.3920	1.2939
Polish Zloty	**4.1847**	**4.0740**	4.1206	4.4580
Canadian Dollars	**1.2842**	**1.3137**	1.3761	1.3215

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31. Financial instruments and financial risk management continued

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 €36,000. 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 €326,000. A 1% decrease in the Euro value would have an equal but opposite effect.

(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. None of the Group and Company's financial assets are past due and no impairments have been recorded.

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

	2012 €	2011 €
Euro	322,886	8,170,416
Sterling	630,900	8,017,168
US Dollar	180,557	3,372,862
Polish Zloty	41,302	1,979,294
Canadian Dollar	82,316	4,615,785
Moroccan Dirhams	566,601	–
Other	237	42,438
	1,824,799	26,197,963

Cash deposits held by the Company total €1,648,896 at the reporting date (2010: €16,289,530), comprised of €292,928 in Euro, €629,373 in Sterling, €157,947 in US Dollars, €2,044 in Polish Zloty and €566,601 in Moroccan Dirhams.

(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.

31. Financial instruments and financial risk management continued

The contracted maturities of the Group's financial liabilities at 31 December 2012 are as follows:

Group	Less than one year €	One to two years €	Two to five years €	Total €
Trade and other payables and Derivative (Notes 19 & 20)	7,732,906	1,884,251	–	9,617,157
Loans and borrowings (Note 21)	3,251,326	–	–	3,251,326
Delta Hydrocarbons B.V. loan (Note 21)	3,865,967	–	–	3,865,967
	14,850,199	1,884,251	–	16,734,450

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 B.V. Loan which includes interest at 11% per annum, resulting in cashflows of €3,993,000 in less than one year. 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 (including cash and cash equivalents) by 0.5% at the reporting date, the Group's profit for the year would increase by approximately €9,100 (Company: €8,250) 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 2012 and 31 December 2011. 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 ten per cent of the nominal value of the Company's issued share capital. The power will expire on the earlier of 28 September 2013 or the date of the annual general meeting of the Company in 2013.

The Group has two committed facilities available comprising an undrawn GBP15 million Standby Equity Distribution Agreement ('SEDA Facility') and a USD12 million debt facility ('Debt Facility'). Both facilities have been provided by YA Global Master SPV Ltd ('YA Global'). The facilities are linked and the maximum funding available to the Group under the terms of both facilities is GBP15 million, of which USD4 million has been drawn down at the date of approval of the financial statements.

The SEDA Facility provides a GBP15 million equity line of credit to the Group. Under the terms of the SEDA Facility the Group may draw down funds from time to time, at its sole discretion, in exchange for the issue of new shares in the capital of the Company. The original term of this facility was to 31 October 2013, however, on 18 April 2013, the facility was extended to 31 October 2014.

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31. Financial instruments and financial risk management continued

On draw down the shares to be issued by the Company will initially be priced at a 6% discount to the prevailing market price (as defined in the SEDA Facility) 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. The Group may apply for an advance under the terms of the SEDA Facility subject to a number of conditions being satisfied by the Group at the date the request for an advance is made. Each advance may be restricted to an amount equal to 200% of the average daily value traded of the Company's shares for each of the ten trading days prior to the advance notice date or such an amount which would result in YA Global holding more than 2.99% of the issued share capital of the Company. Without the prior written consent of YA Global, the Group may not request more than one advance in each period of ten trading days.

Under the terms of the Debt Facility (also known as the SEDA Backed Note Agreement), amounts can be drawn down subject to the mutual agreement of YA Global and the Group. As funds are drawn down under this facility, the amount available for drawdown under the SEDA Facility is restricted by the amount of any outstanding balance on the debt facility. This restriction on the SEDA drawdown is subsequently reduced on cash repayment of the debt facility, such that on full repayment of any amount drawn on the debt facility, the full amount of the SEDA facility is available for drawdown subject to its normal drawdown conditions detailed above. Each Debt Facility draw down is repayable by instalment over a 12 month period from the date of the draw down and interest is payable at a rate of 10% per annum. San Leon can opt to make any repayment instalment by way of a drawdown from the SEDA facility in lieu of a cash repayment. The facility expires on 31 October 2014.

(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 2012 and 31 December 2011.

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 recognised 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 2012 and 31 December 2011, the Group and Company had no outstanding contracts designated as hedges.

32. Subsequent events

(a) Acquisition of Aurelian Oil & Gas Plc

San Leon acquired the entire issued and to be issued share capital of Aurelian by means of a Court-sanctioned scheme of arrangement under Part 26 of the UK Companies Act 2006, effective on 25 January 2013, for €62 million. Prior to the acquisition, Aurelian was listed on the AIM, with exploration assets based predominantly in Poland and Romania.

Under the terms of the acquisition, each Aurelian shareholder received 1.3 San Leon shares for each Aurelian share.

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 twelve month period post acquisition will be provided for in the 2013 financial period in accordance with the provisions of IFRS3: Business Combinations.

	Acquisition book value €	Fair value adjustment €	Acquisition fair value €
Exploration and evaluation assets	22,860,065	–	22,860,065
Property, plant and equipment	653,659	(400,000)	253,659
Equity accounted investments	5,080,327	–	5,080,327
Current assets excluding cash and cash equivalents	4,268,231	–	4,268,231
Cash and cash equivalents	31,897,712	–	31,897,712
Trade and other payables	(2,032,458)	(262,500)	(2,294,958)
Net assets acquired	62,727,536	(662,500)	62,065,036
Consideration paid:			
Issue of Ordinary shares of San Leon Energy			61,128,617
Contingent consideration on the fair value of Aurelian share option obligations assumed by San Leon (ii)			936,419
Total consideration (i)			62,065,036

(i) Excludes acquisition costs of €152,412.

(ii) Under the terms of the acquisition, San Leon agreed to grant Aurelian option-holders, and Aurelian staff with pending awards, replacement share options over San Leon shares, on certain terms no less favourable than under the historical Aurelian unapproved share option plan. 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 26. The fair value charge recognised as part of the consideration reflects the extent to which the options awarded reflect past service by the relevant individuals. The portion of the fair value charge for options granted by San Leon that is related to future service requirement in accordance with the vesting terms of the options will be recognised as a post-acquisition charge in accordance with the requirements of IFRS 3.

	€
Net cash flow arising on acquisition	
Cash acquired with subsidiary	31,897,712

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32. Subsequent events continued

(b) Acquisition of Talisman Energy Polska Sp. z o.o.
In May 2013, San Leon signed a share purchase agreement with Talisman, whereby San Leon Energy B.V. acquired the entire issued share capital of Talisman's Polish subsidiary, Talisman Energy Polska Sp. z o.o. ("Talisman Polska"). In consideration, San Leon Energy B.V. assumed all assets and obligations of Talisman Polska. As a result of this transaction, San Leon has now regained 100% ownership of the Gdansk W and Braniewo S concessions and increased its interest to 50% on the Szczawno concession.

In February 2010, Talisman signed a farm-in agreement to earn a 30% working interest in the three concessions in return for performing certain commitments, including drilling one well in each concession, with the option to increase its interest to 60% by drilling a further well in each concession.

Prior to completion of this transaction, Talisman had drilled one vertical well in each concession at a combined cost of approximately €27.8 million as detailed on the table below. Talisman had carried San Leon on all expenses related to the drilling of these three wells. San Leon will now use the cash acquired on the transaction to fund the planned fracture of its Lewino-1G2 well in the Gdansk W Baltic Basin concession.

A summary of the book value of assets and liabilities acquired at the date of the transaction is set out below:

	Book value at Transaction Date €
Exploration and evaluation assets	27,863,672
Inventory of drilling equipment, tubing and casing	2,736,019
Cash and cash equivalents	59,665
Trade and other receivables	640,497
Trade and other payables	(75,916)
Net assets acquired in Talisman Polska	31,223,937
Cash received by San Leon	3,958,888
Total assets acquired by San Leon	35,182,825

San Leon is currently considering the appropriate IFRS accounting treatment to be applied to the above transaction and in particular whether the transaction fulfils the criteria to be treated as a business combination in accordance with IFRS 3: Business Combinations or should be treated as an asset purchase. Due to the limited timeframe between completion of this transaction and finalisation of this annual report, management have not had sufficient time to complete this evaluation or to formally conclude its assessment of the fair value of assets and liabilities acquired. It is anticipated that the relevant accounting treatment including the appropriate disclosures will be reflected in the interim financial results for the period to 30 June 2013.

33. Approval of financial statements

The Financial Statements were approved by the Board on 25 June 2013.

Corporate information

Directors	Oisín Fanning (Chairman) Paul Sullivan (Managing Director) Jeremy Boak (Non-Executive Director) Raymond King (Non-Executive Director) Daniel Martin (Non-Executive Director) Con Casey (Non-Executive Director)	
Registered Office	First Floor Wilton Park House Wilton Place Dublin 2	
Company Secretary	Raymond King FCIS	
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
Nomad	Westhouse Securities Heron Tower 110 Bishopsgate London EC2N 4AY	
Joint Stockbrokers	Macquarie Capital Advisors Level 35 1 Ropemaker Street London EC2Y 9HD First Energy Capital LLP 85 London Wall London EC2M 7AD	Fox Davies Capital CityPoint 1 Tudor Street London EC2Y
Registrars	Computershare Investor Services (Ireland) Ltd Heron House Corrig Road Sandyford Industrial Estate Dublin 18	
Registered Number	237825	

Glossary

2C	Best estimate of Contingent Resources
2D	Two dimensional seismic
3D	Three dimensional seismic
ADR	American depositary receipt
AIM	The London Stock Exchange's AIM market
AIM Rules	AIM Rules for Companies
Aurelian	Aurelian Oil & Gas Limited (formerly Aurelian Oil & Gas PLC)
BCF or bcf	Billion cubic feet
B.V.	Dutch private limited company
BVI	British Virgin Islands
Cairn	Cairn Energy PLC
Celtique	Celtique Energy Poland Sp. z o.o.
CPR	Competent Person's Report
Delta	Delta Hydrocarbons B.V.
DFIT	Diagnostic fracture injection test
E&P	Exploration and Production
Enefit	Enefit Outotec Technology OÜ
Genel	Genel Energy PLC
GmbH	German company with limited liability
Gold Point Energy	Gold Point Energy Corp.
Group	San Leon and its subsidiaries
Island Oil & Gas	Island Oil & Gas PLC
IVE	In-situ vapour extraction
JV	Joint Venture
km	Kilometres
LLP	Limited liability partnership
Longreach	Longreach Oil & Gas Ventures Ltd
Ltd or limited	A private limited company incorporated under the laws of England and Wales, Scotland, certain Commonwealth countries and Ireland
m	Metres
MD	Measured depth
MMBOE or mmboe	Million barrels of oil equivalent
mmbbl	Million barrels
Nomad	A company that has been approved as a nominated advisor for AIM by the London Stock Exchange
NovaSeis	NovaSeis Sp. z o.o.
NPV	Net present value

OMV	OMV (Ireland) Killala Exploration GmbH
OTCQX	OTCQX International is the premier market tier for non-US companies that trade over-the-counter and are listed on a qualified foreign stock exchange
PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A.
PLC or S.A.	A publicly held company
Premier Oil	Premier Oil PLC
Prospectiuni	Prospectiuni S.A.
Providence	Providence Resources PLC
PSE Kinsale Energy	PSE Kinsale Energy Limited
Realm or Realm Energy	Realm Energy International Corporation
San Leon or the Company	San Leon Energy PLC
SEDA	Standby Equity Distribution Agreement
Serica	Serica Energy PLC
Sp. z o.o.	Polish limited liability company
Sp. z o.o. sp.k	Polish LLP
SPV	Special purpose vehicle
Sunningdale Oils	Sunningdale Oils (Ireland) Limited
Super Nova	Super Nova Resources Inc.
Talisman	Talisman Energy Inc.
TCF or tcf	Trillion cubic feet
United Oilfield Services	United Oilfield Services Sp. z o.o.
Valhalla Oil & Gas	Valhalla Oil & Gas AS
Yorkville	YA Global Master SPV Ltd

Reserves

Proved	Reserves which have a 'reasonable certainty' of being recovered
Probable	Probable reserves are volumes that are defined as 'less likely to be recovered than proved, but more certain to be recovered than possible reserves'
Possible	Possible reserves are reserves which analysis of geological and engineering data suggests are less likely to be recoverable than probable reserves
Gross	Reserves before deduction of royalty
Net	Reserves after royalty plus royalty interest
1P	Proved
2P	Proved plus probable
3P	Proved plus probable plus possible

Conversion

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

To convert from	To	Multiply by
mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
bbls	Cubic metres	0.159
Cubic metres	bbls	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

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