



**Kea Petroleum plc**  
("Kea" or the "Group")

## **PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MAY 2011**

Kea Petroleum plc (AIM:KEA) is pleased to present its Preliminary Results for the year ended 31 May 2011.

### **Operational Highlights**

- Methanex exercised option to participate in Mauku prospect
- Webster Drilling and Exploration has acquired Kea's 50% interest in Petra Drilling, the joint venture company owning Augers VR500 rig and the Titan work-over rig and repaid to Kea related loans
- Board strengthened with appointment of John Dennehy as Commercial Director to work alongside David Bennett, Director of Exploration
- Relinquished onshore Northland petroleum exploration permit PEP 51339, offshore permit PEP 52200 and Kea's 10% share in offshore petroleum permit PEP 38524 in order to focus on Mauku
- Ceased testing on Wingrove and Hoadleys following disappointing results

### **Financial Highlights**

- Over £12.5m of cash held at balance sheet date (2010 : £20m)
- Loss before tax: £4.09m (2010 : £1.25m)
- Loss per share: 0.82p (2010 : 0.32p)

### **Strategy – 2012**

- Explore the numerous Mount Messenger Sand plays starting in January
- Drilling on Mauku-1 scheduled to commence in mid 2012
- Acquisition of key seismic over Douglas prospect scheduled for early 2012

**Chairman, Ian Gowrie-Smith said:**

“Our continued ambition is to become a major player in oil and gas production in the Taranaki region maintaining our dual core strategy. We believe the recent success of our neighbours in drilling and finding oil and gas in the Mount Messenger Sands confirms the Company’s strategy. We enter the next year with our hopes high, and with a fully funded active drilling programme on some very exciting prospects.”

**For further information please contact:**

**Kea Petroleum Plc**

David Lees, Executive Director

Tel: +44 (0)20 7340 9970

**RBC Europe Ltd**

Matthew Coakes / Daniel Conti

Tel: +44 (0)20 7653 4000

**Buchanan Communications**

Tim Anderson / Isabel Podda

Tel: +44 (0)20 7466 5000

## CHAIRMAN'S STATEMENT

The last 12 months have had their share of disappointments and achievements. We enter the next year with our hopes high and with a fully funded active drilling programme on what we believe are some very exciting prospects.

### Methanex and Mauku

During the year, Kea and Methanex New Zealand Limited (a subsidiary of Methanex Corporation of Canada) ("Methanex"), conducted extensive studies on the Mauku prospect (formerly known as Felix), in Kea's 100% owned petroleum exploration permit PEP 381204, to develop it to drillable status. Under the terms of the Kea - Methanex Funding and Participation Agreement, Methanex has exercised its option to participate in the drilling of the Mauku prospect. Mauku-1 is scheduled for drilling in mid 2012 at an expected aggregate cost of approximately US\$12m, before testing, of which Methanex will contribute 50%. Flow-testing of the well (if justified), additional seismic and further drilling may be required prior to development, to which Methanex will also consider contributing 50%.

Under the terms of the agreement with Methanex, any gas discovered would be sold to Methanex on terms that reflect international methanol prices. Any revenues from oil, condensates and LPGs would go to Kea. Kea remains the 100% owner of the permit, thereby enabling Kea to further reduce its exposure to cash costs by farming out interests to third parties.

Mauku is considered, by the Directors of the Company, to have an upside potential recoverable resource of 600 BCF of gas and 30 million barrels of condensates/oil. Kea expects to farm out on terms such that the greater part of the permit equity remains in Kea's hands.

### Strategy

Our continued ambition is to become a major player in oil and gas production in the Taranaki region maintaining our dual core strategy. One thrust of our strategy to achieve that goal is to explore the Mount Messenger Sand plays within the Company's permit areas. We believe the recent success of our neighbours in drilling and finding oil and gas in the Mount Messenger Sands, confirms the Company's strategy. The drilling success of our neighbours has of course also been reflected in those companies' share price performances. We need to drill more holes and that is what we intend to do. Kea has as many as 20 prospects and leads identified at Mount Messenger Sand levels. The Directors believe that discoveries in the Mount Messenger play can be brought expeditiously into production.

Our second thrust of the strategy for growth is the exploration of the Company's larger gas and oil prospects such as Mauku both onshore and offshore. Obtaining farm outs for these prospects is a priority, as well as, of course, the option of Methanex participating under our agreement with them.

### Rigs

The Company played a pivotal role during the year, in association with Webster Drilling and Exploration Limited ("Webster"), in fostering the introduction and availability in New Zealand of a state-of-art American Augers VR500 rig. The VR500 is a more modern, safe and versatile rig than has previously been available in New Zealand, and is better suited to the testing of some of the deeper and bigger targets in Kea's portfolio. Consequently, through Petra Drilling Limited ("Petra"), our 50% jointly owned company with Webster, Kea organised the acquisition of the VR500 rig, which is expected to arrive in New Zealand shortly.

Webster has now acquired Kea's interest in Petra (which also owned the Titan work-over rig) on terms which left Kea cash neutral on the initiative and with a preferential access to the VR500 rig in the future. We are delighted with this result.

### Disappointments

A disappointment in the last 12 months was at Wingrove-2 in petroleum exploration permit PEP 51153, where we did not produce oil at economically viable rates during our flow testing of the Urenui Sands, which were a secondary objective of the well. Our efforts to produce the waxy crude in the multiple intervals of the Urenui Sands was fraught with difficulties, which led to delays and increased costs, although much of the specialist equipment used actually performed well and gave us much guidance for the future.

The decision of the New Zealand Ministry not to award us the Kahili block was also disappointing. Our drilling plans had been based on Kahili being a primary drilling target for the Company and the slow and ultimately unsuccessful deliberations by the Ministry led us to have a very limited news flow for shareholders.

The Hoadleys-1 prospect in the ATP837P licence area of Australia's onshore Surat Basin was drilled largely because of the delay in the Kahili process. This prospect represented a ready to drill, relatively inexpensive play with good potential, but was unfortunately unsuccessful. We have since been approached by other explorers interested in deepening the Hoadleys well to test the Permian sands below 3,000m which have produced oil and gas along trend.

### Drilling Plans. The forward looking programme

The Mauku-1 well will be drilled to a depth of 3,400m, along trend some 50km north of Shell's Pohokura gas-condensate field, which is now the major gas supplier in New Zealand. The well will test the Mangahewa Sands which are the producing reservoir interval in Pohokura. A gas-condensate discovery similar to Pohokura is capable of being developed in a time frame considerably faster than that of offshore discoveries, due to the ability to drill development wells from onshore, coupled with ensured access to the national gas pipeline system running 25km south east of the prospect, or potentially, in the upside case of a major discovery, by subsea pipeline direct to Methanex's methanol plants.

The option to deepen the well an additional 1,000m to test the Taniwha Sands, which are mapped as present within a much larger deeper trap, is also under consideration and Mauku-1 is designed to enable this to be done at some stage.

In our shallow drilling programme reservoir sands within Mount Messenger are typically situated at depths from 1,000 to 2,000m. A considerable number of producing oil and gas pools have been discovered in onshore Taranaki, with a success rate of around one in three; and a number of such features are identified on seismic within Kea's key onshore permit areas, immediately east of a series of producing oil and gas fields between the Waihapa oil field in the south and the McKee oil field in the north. We have identified five of these as being mature for drilling and we are presently securing drill sites for them. Our planned drilling programme is scheduled to commence in early 2012 with the drilling of the top 1,000m of the Mauku Prospect with a lightweight rig, which could then move on to drill one of three Mount Messenger targets adjacent to Waihapa, and then another to the east of McKee. Depending on the results of these, we may move on to further drill sites or alternatively elect to drill deviated wells from the initial sites.

Early in 2012, we also plan to acquire a key seismic line over our Douglas Prospect in the petroleum exploration permit area PEP 51153, a deeper target in the Tikorangi Limestone. The Tikorangi Limestone produces oil at prolific rates in the adjacent Waihapa field, which abuts Douglas at Tikorangi level. Subject to a positive result from the seismic line, we expect to drill Douglas in mid 2012.

### Board and Management Changes

In October 2011 we strengthened our Board with the appointment of John Dennehy as Commercial Director. Based in New Zealand, John has extensive experience in negotiating and concluding major

infrastructure deals worldwide. John will assume the day to day running of the Company alongside David Bennett, who has assumed the title of Director of Exploration.

#### Funding

Whilst we consumed a disappointing quantity of our cash resources on Wingrove-2, we believe we remain in a fairly robust financial state and we expect to be able to complete our planned drilling programme during the coming year without recourse to shareholders. Mount Messenger prospects can each be drilled for US\$1-1.4m, which represents a highly effective use of our funds. If required, these cash funds could be augmented by contributions from our partners Methanex, as well as from future farm in partners, to extend our exploration drilling while conserving our cash resources.

#### Conclusion

These measured and progressive steps represent a positive way forward for the Company in the coming year and, although the stock market environment remains volatile at best, we believe there is a realistic chance of 2012 being a great year for Kea.

**Ian Gowrie-Smith**  
**Chairman**  
**28 October 2011**

**CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME**

For the year ended 31 May 2011

		<b>Year ended 31 May 2011 £'000</b>	Period ended 31 May 2010 £'000
	Notes		
Revenue		-	-
Cost of sales		-	-
<b>Gross profit</b>		-	-
Administration expenses		<u>(4,412)</u>	<u>(1,357)</u>
<b>Operating loss</b>		<b>(4,412)</b>	<b>(1,357)</b>
Finance income	4	<u>314</u>	106
Loss before taxation	2	<b>(4,098)</b>	<b>(1,251)</b>
Taxation	5	<u>(79)</u>	98
<b>Loss for the period</b>		<u><b>(4,177)</b></u>	<u><b>(1,153)</b></u>
<b>Other comprehensive income:</b>			
Exchange differences on translating foreign operation		<u>570</u>	157
<b>Total comprehensive loss for the period</b>		<u><b>(3,607)</b></u>	<u><b>(996)</b></u>
<b>Loss per share</b>			
Basic and fully diluted (pence per share)	6	<u><b>(0.82)p</b></u>	<u><b>(0.32)p</b></u>

The loss for the period and total comprehensive loss for the period are 100% attributable to equity shareholders of the parent undertaking.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 May 2011

Company Registration: 7023751

31 May 2011 £'000	31 May 2010 £'000
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	Notes		
<b>Current Assets</b>			
Cash and cash equivalents	9	12,547	20,095
Trade and other receivables	10	2,394	1,470
		<b>14,941</b>	21,565
<b>Non-Current Assets</b>			
Property, plant & equipment	8	760	18
Oil & gas exploration assets	7	4,022	2,437
		<b>4,782</b>	2,455
<b>Total Assets</b>		<b>19,723</b>	24,020
<b>Current Liabilities</b>			
Trade and other payables	11	1,477	3,277
<b>Total liabilities</b>		<b>1,477</b>	3,277
<b>Shareholders' Equity</b>			
Issued capital	12	5,094	5,037
Share premium	12	16,787	16,390
Merger reserve	13	125	125
Share option reserve	14	1,000	187
Translation reserve		570	157
Retained earnings		(5,330)	(1,153)
<b>Total equity</b>		<b>18,246</b>	20,743
<b>Total Equity and Liabilities</b>		<b>19,723</b>	24,020

The financial statements were approved by the Board of Directors on 28 October 2011

P. Wright  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2011

	Share capital	Share premium	Merger Reserve	Share option reserve	Translation reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Issue of shares	5,037	16,390	-	-	-	-	21,427
Equity settled share options	-	-	-	187	-	-	187
Restructure	-	-	125	-	-	-	125
<b>Transactions with owners</b>	<b>5,037</b>	<b>16,390</b>	<b>125</b>	<b>187</b>	-	-	<b>21,739</b>
Loss for the period	-	-	-	-	-	(1,153)	(1,153)
Other comprehensive income:							
Exchange differences on translation of foreign operations	-	-	-	-	157	-	157
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>157</b>	<b>(1,153)</b>	<b>(996)</b>
<b>At 31 May 2010</b>	<b>5,037</b>	<b>16,390</b>	<b>125</b>	<b>187</b>	<b>157</b>	<b>(1,153)</b>	<b>20,743</b>
Issue of shares	57	397	-	-	-	-	454
Equity settled share options	-	-	-	813	-	-	813
<b>Transactions with owners</b>	<b>57</b>	<b>397</b>	<b>-</b>	<b>813</b>	<b>-</b>	<b>-</b>	<b>1,267</b>
Loss for the period	-	-	-	-	-	(4,177)	(4,177)
Other comprehensive income:							
Exchange differences on translation of foreign operations	-	-	-	-	413	-	413
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>413</b>	<b>(4,177)</b>	<b>(3,764)</b>
<b>At 31 May 2011</b>	<b>5,094</b>	<b>16,787</b>	<b>125</b>	<b>1,000</b>	<b>570</b>	<b>(5,330)</b>	<b>18,246</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 May 2011

	Year ended 31 May 2011 £'000	Period ended 31 May 2010 £'000
<b>Net cash (outflow) / inflow from operating activities</b>	<b>(6,389)</b>	864
<b>Cash flows from investing activities</b>		
Interest received	314	106
Expenditure on oil and gas exploration assets	(1,585)	(2,437)
Purchase of property, plant and equipment	(755)	(22)
Net cash used in investing activities	(2,026)	(2,353)
<b>Cash flows from financing activities</b>		
Proceeds from share issues	454	21,427
Net cash generated from financing activities	454	21,427
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(7,961)</b>	19,938
Cash and cash equivalents at beginning of period	20,095	-
Foreign exchange differences - net	413	157
<b>Cash and cash equivalents at balance sheet date</b>	<b>12,547</b>	20,095
<b>Reconciliation of cash flows from operating activities with loss for the period</b>		
<b>Loss for the year / period</b>	<b>(4,177)</b>	(1,153)
<b>Movements in Working Capital</b>		
Trade and other receivables	(924)	(1,470)
Trade and other payables	(1,800)	3,277
Depreciation	13	4
Interest received	(314)	(106)
Share option expense	813	187
Merger reserve	-	125
<b>Net cash (outflow) / inflow from operating activities</b>	<b>(6,389)</b>	864

The financial information set out in this preliminary announcement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 for the year ended 31 May 2011 but is derived from those accounts. The financial statements for 2011 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on the 2011 accounts and have issued an unqualified opinion.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ending 31 May 2011

### 1. Revenue and segmental reporting

The Group's single business segment is the exploration for hydrocarbons, comprising oil and gas. No revenue has been earned during the period.

The following table provides a breakdown of the Group's capital expenditure based on the area of operation:

	<b>2011</b>	2010
	<b>£'000</b>	£'000
New Zealand	<b>1,585</b>	2,437

The following table provides a breakdown of the Groups total segment non current assets based on the area of operation:

	<b>2011</b>	2010
	<b>£'000</b>	£'000
New Zealand	<b>755</b>	14
Corporate - unallocated	<b>5</b>	4
	<b>760</b>	18

### 2. Loss before taxation

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Loss before taxation has been arrived at after charging / (crediting):	<b>£'000</b>	£'000
Foreign exchange differences	(12)	(6)
Depreciation of property, plant and equipment	13	4
Employee benefits expense:		
Employee costs (Note 3)	551	333
Operating leases rentals:		
Land and buildings	89	60
Audit and non-audit services:		
Fees payable to the Company's auditor for the audit of the Group accounts	30	30

Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	10	10
Reporting Accountants – AIM listing	-	80
Tax services	10	10
Revenue from sub-letting part of Group head office in London	(95)	(47)

### 3. Employee numbers and costs

	2011	2010
	£'000	£'000
Employee costs (including directors):		
Wages and salaries	382	219
Social security costs	142	103
Pension costs – defined contribution plans	27	11
	<b>551</b>	<b>333</b>

The average number of employees (including directors) during the period was as follows:

Management	7	6
Administration	2	2
Exploration and Mining	3	1
	<b>12</b>	<b>9</b>

	£'000	£'000
Remuneration of key management personnel:		
Emoluments	330	358
Pension costs	22	11
	<b>352</b>	<b>369</b>

Included in the figure of £352,000 are costs of £19,000 relating to time spent by the CEO and other employees that have been capitalised against specific projects.

The total directors' emoluments for the year were £330,000. In addition directors' total pension contributions for the year were £22,000. The emoluments of the highest paid director were £115,000.

### 4. Finance income

	2011	2010
	£'000	£'000
Interest income	<b>314</b>	<b>106</b>

### 5. Taxation

There is no income tax expense due to losses incurred in the period. The tax assessed for the period differs from the standard rate of corporation tax as applied in the respective trading domains where the Group operates.

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Loss for the period before tax	<b>(4,098)</b>	(1,251)
Loss for period multiplied by the standard rate of corporation tax applicable in the UK, 28%	<b>(1,134)</b>	(350)
Effects of:		
Expenses not deductible for tax purposes	<b>130</b>	113
Capital allowances in excess of depreciation	-	(1)
Overseas tax losses not available to carry forward	-	27
Differences in rates of taxation	<b>(21)</b>	(5)
Unprovided deferred tax adjustment for prior period	<b>98</b>	
Unrelieved tax losses and other deductions raised in the period	<b>1,024</b>	118
	<hr/>	<hr/>
Tax credit for the period	<b>98</b>	(98)
	<hr/>	<hr/>
<b>Deferred tax</b>	<b>2011</b>	2010
	<b>£'000</b>	£'000
Deferred tax assets:		
Short term timing differences	(14)	7
Tax losses available for offset against future taxable profits	(1,112)	773
Deferred tax liabilities:		
Timing differences on capitalised exploration expenditure	1,126	(682)
	<hr/>	<hr/>
Net deferred tax asset recognised	<b>-</b>	<b>98</b>
	<hr/>	<hr/>

The parent Company has a deferred tax asset of £321,454 (2010: £117,767) arising from tax losses of £692,087 which is unrecognised as the likelihood of sufficient future taxable profits being generated within the parent Company does not yet meet the definition of "probable".

## 6. Loss per share

	<b>Period ended 31 May 2011</b>	Period ended 31 May 2010 £'000
Loss for the year attributable to equity shareholders	(4,177)	(1,153)
		Pence per share
Basic and diluted loss per share	(0.82)p	(0.32)p
		Number of shares
Issued ordinary shares at start of the period	503,690,000	-
Ordinary shares issued in the period	5,665,000	503,690,000
Issued ordinary shares at end of the period	<u>509,355,000</u>	<u>503,690,000</u>
Weighted average number of shares in issue for the period.	<u>508,011,014</u>	<u>364,836,627</u>

The diluted loss per share does not differ from the basic loss per share as the exercise of share options would have the effect of reducing the loss per share and is therefore not dilutive.

## 7. Oil and gas exploration assets

<b>Exploration and evaluation expenses capitalised</b>	<b>£'000</b>
<b>Cost</b>	
Additions 2010	2,437
Net book value At 31 May 2010	<u>2,437</u>
Additions 2011	<u>1,585</u>
<b>Net book value at 31 May 2011</b>	<u><b>4,022</b></u>

All of the Group's operating expenses and other assets and liabilities are derived from the exploration and evaluation of hydrocarbon resources, unless stated otherwise in these financial statements.

## 8. Property, plant and equipment

	Office & computer equipme nt £'000
Cost	
Opening Balance	-
Additions	22
At 31 May 2010	<u>22</u>
Additions	755
At 31 May 2011	<u>777</u>
Depreciation	
Opening Balance	-
Charge for the year	4
At 31 May 2010	<u>4</u>
Charge for the year	13
	<u>17</u>
Net Book Value At 31 May 2010	18
Net Book Value at 31 May 2011	<u><b>760</b></u>

## 9. Cash and cash equivalents

	2011 £'000	2010 £'000
Cash at bank and in hand	<u><b>12,547</b></u>	<u>20,095</u>

## 10. Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	-	39
Other receivables	<b>590</b>	168
Value added taxes	<b>30</b>	806
Prepayments	<b>1,774</b>	457
	<u><b>2,394</b></u>	<u>1,470</u>

There were no financial assets overdue for receipt

## 11. Trade and other payables

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Trade payables	<b>465</b>	1,825
Social security and other taxes	<b>89</b>	33
Accrued expenses and other creditors	<b>923</b>	1,419
	<b>1,477</b>	3,277

## 12. Share capital

	Shares	Nominal Value (1.0p) £'000	Premium net of costs £'000	Total £'000
Authorised share capital Ordinary shares of £0.01 each	1,000,000,000			10,000
Issued, called up and fully paid Ordinary shares of £0.01 each				
Issued 23/10/09	40,000,000	400	-	400
Issued 23/10/09 on restructure (Note 13)	200,000,000	2,000	-	2,000
Issued 01/11/09	144,640,000	1,446	5,786	7,232
Issued 15/02/10 on AIM placement	75,000,000	750	4,341	5,091
Issued 21/05/10	43,750,000	438	6,242	6,680
Warrants exercised	300,000	3	21	24
31 May 2010	503,690,000	5,037	16,390	21,427
Warrants exercised	5,665,000	57	397	454
<b>31 May 2011</b>	<b>509,355,000</b>	<b>5,094</b>	<b>16,787</b>	<b>21,881</b>

The market price of the ordinary shares at 31 May 2011 was 12.62p and the range during the year was 9.88p to 29.0p.

## 13. Merger reserve

Additions	<b>£'000</b>
	125
At 31 May 2010 and 31 May 2011	<b>125</b>

In October 2009, the Company acquired the entire issued share capital of the recently incorporated KPHL by way of a share for share exchange with the then shareholders of KPHL. The difference between the nominal value of the shares issued by Kea Petroleum to the shareholders of KPHL and the nominal value of the shares of KPHL taken in exchange has been credited to a merger reserve on consolidation.

#### 14. Share based payments

The Group has an unapproved share option plan for the benefit of employees. Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the period are as follows:

	2011 WAEP		2010 WAEP	
	Number	Pence	Number	pence
Outstanding at the beginning of the period	30,000,000	8.00	-	-
Granted during the period	12,000,000	12.00	30,000,000	8.00
Exercised during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Expired during the period	-	-	-	-
<b>Outstanding at the balance sheet date</b>	<b>42,000,000</b>	<b>9.14</b>	30,000,000	8.00
<b>Exercisable at the balance sheet date</b>	-	-	-	-

The fair value of options granted has been arrived at using a Binomial model. The assumptions inherent in the use of this model are as follows:

- The option life is assumed to be at the end of the allowed period.
- There are no vesting conditions.
- No variables change during the life of the option (e.g. dividend yield).
- Expected volatility was determined by calculating the weighted average share price movement of 4 comparable companies. Expected life was based on the contractual life of the options, adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

Date of grant	Vesting period (Yrs)	Life in years from grant date	Exercise price (pence)	Risk-free rate	Share price at grant (pence)	Volatility of share price	Fair value (pence)	Number outstanding
15/02/10	Min 3 years	10	8.0	2.95%	9.15	85%	6.49	30,000,000
07/01/11	Min 3 years	10	12.0	2.44%	14.5	85%	10.05	12,000,000

The Group recognised total expenses of £813,549 (2010:£186,604) related to equity-settled share based payment transactions during the year. A corresponding credit has been made to the share option reserve. Further details of share based payments are set out in the Remuneration Report.

#### 15. Financial instruments and risk management

##### *Risk management*

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern whilst maximising the return to stakeholders through the effective management of liquid resources raised through share issues. The principal risks faced by the Group resulting from financial instruments are liquidity risk, foreign currency risk and, to a certain extent, interest rate risk. The directors review and agree policies for managing each of these risks and they are summarised below.

### *Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other members. The Group will also seek to minimise the cost of capital and attempt to optimise the capital structure. Currently no dividends are paid to shareholders and capital for further development of the Group's products is achieved by share issues. The Group does not carry significant debt.

### *Categories of financial instrument*

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Loans and receivables		
- Cash and cash equivalents	<b>12,547</b>	20,095
- Trade receivables	-	39
	<b>12,547</b>	20,134
Financial liabilities at amortised cost		
- Payables	<b>1,476</b>	3,244

There is no material difference between the fair values and the book values of these financial instruments. All financial liabilities are due within one year.

### *Foreign currency risk*

The cash balances carried within the Group comprise the following foreign currency holdings:

	<b>2011</b>	2010
	<b>£'000</b>	£'000
NZ dollars	<b>4,670</b>	5,853
US Dollars	<b>3,182</b>	2,693
AUS Dollars	<b>1,305</b>	1,936
	<b>9,157</b>	10,482

The Group operates within the UK and New Zealand. All transactions are denominated in Sterling, NZ Dollars or US dollars. As such the Company is exposed to transaction foreign exchange risk. The mix of currencies and terms of trade are such that the directors believe that the Company's exposure is minimal and consequently they do not specifically seek to hedge that exposure. A significant portion of the Group's funds are in Sterling with only sufficient funds held overseas to meet local costs. Funds are periodically transferred overseas to meet local costs when required.

The table below demonstrates the sensitivity of the Group's consolidated loss before tax to reasonably possible changes in the value of the US dollar and the NZ Dollar with respect to Sterling, all other variables held constant. The sensitivity analysis includes only the US dollar and NZ Dollar because the effects of other currencies is not significant. The sensitivities reflect only those changes in consolidated loss before tax that arise from translation of the value of US dollar and NZ dollars denominated financial assets and liabilities.

	Change in value of USD vs. £ %	Effect on loss before tax and equity £'000	Change in value of NZD vs. £ %	Effect on loss before tax and equity £'000
<b>2011</b>	<b>15</b>	<b>477</b>	<b>15</b>	<b>700</b>
2010	15	398	15	940

#### *Interest rate risk*

The Group finances its operations through equity fundraising and therefore does not carry significant borrowings. Interest rate risk is therefore considered to be immaterial. The Group's cash balances and short term deposits are held at floating interest rates based on LIBOR and are reviewed to ensure maximum benefit is obtained from these resources. Risk is additionally reduced by ensuring two or more banks are used for deposits.

#### *Liquidity risk*

The Group is dependent on equity fundraising through private placing which the directors regard as the most cost effective method of fundraising. The directors monitor cash flow on a daily basis and at monthly board meetings in the context of their expectations for the business to ensure sufficient liquidity is available to meet foreseeable needs.

### **16. Capital commitments**

As at 31 May 2011 the Group had no capital expenditure commitments. The terms of the petroleum exploration permits which the Group holds require it to carry out certain exploration activities within specified time frames. The actual costs of these activities are dependent on a number of factors including the scope of the work and whether farm out or similar arrangements are entered into with other parties. Estimated commitments for the minimum exploration work program obligations are as follows:

#### Within 1 year

- Collection of additional geochemistry and gravity samples - £75,000
- PEP 381204 Drill one additional well - £7,500,000

#### Later than 1 year but not later than 5 years

- PEP 51155 Drill one additional well and collect geochemistry and gravity samples - £1,000,000
- PEP 51153 Drill one additional well and collect geochemistry and gravity samples - £1,000,000
- PEP 52333 Acquire 20km onshore seismic and drill one well - £2,500,000

## 17. Subsidiary companies consolidated in these accounts and associates

	Country of incorporation	% interest in ordinary shares at 31 May 2011	Principal activity
Kea Petroleum Holdings Limited	New Zealand	100	Oil and gas exploration
Kea Exploration Limited	New Zealand	100	Oil and gas exploration
Kea Oil and Gas Limited	New Zealand	100	Oil and gas exploration
Petra Drilling Limited	New Zealand	50	Drilling rig operations
Kea Oil and Gas (Kahili) Limited	New Zealand	100	Dormant

## 18. Operating lease commitments

At the balance sheet date, non-cancellable outstanding operating lease rentals are payable as follows:

	2011 £'000	2010 £'000
Land and buildings:		
One year	117	102
Two to five years	234	-
	<b>351</b>	<b>102</b>

The lease is on the property at 5-8 The Sanctuary in London and rental and service charge are payable in advance on a quarterly basis. The lease expires in July 2016, with the option of a break clause in July 2014.

## 19. Related party transactions

During the period Triple Plate Junction Plc, a company in which directors I Gowrie-Smith, D J Lees and P T Wright were directors and shareholders was charged an amount of £22,913 (2010: £23,500) for office management services. The balance outstanding at the year end was £nil.

The New Zealand head office operates from premises in Wellington that are leased from a trust in whom D J Bennett is a trustee and a beneficiary. The lease terms and conditions are at arm's length.

## 20. Events after the balance sheet date

In September 2011 the company relinquished licence areas PEP 51339 and PEP 38524 and in October 2011 the company relinquished licence area PEP 52200.

In October 2011 Methanex agreed to participate in 50% of the planned drilling of the Mauku well in licence PEP 381204 under the terms of the alliance agreement.

In October 2011 the company agreed to sell its 50% interest in Petra Drilling Limited to Webster Drilling.

In October 2011 Mr John Francis Dennehy was appointed to the Board as Commercial Director and Dr David Bennett assumed the title of Director of Exploration.