Nido Petroleum Limited

annual report 2011

CORPORATE DIRECTORY

DIRECTORS

William Bloking
Chairman

David Whitby
Non-Executive Director

Eduardo Mañalac
Non-Executive Director

Andrew Edwards
Non-Executive Director

Michael Ollis
Non-Executive Director

SOLICITORS

Clayton Utz
QV1
250 St Georges Terrace
PERTH WA 6000
T +61 8 9426 8000
F +61 8 9481 3095

Romulo Mabanta Law Office
30th Floor, Citibank Tower
8741 Paseo de Roxas, Makati City
PHILIPPINES
T +63 2 848 0114
F +63 2 810 3110

COMPANY SECRETARY

John Newman

REGISTERED AND PRINCIPAL OFFICE

Level 3
1 Preston Street
COMO WA 6152
T +61 8 9474 0000
F +61 8 9474 0099
E nido@nido.com.au
W www.nido.com.au

OFFICERS

Philip Byrne
Chief Executive Officer

Ashley Gilbert
Chief Financial Officer

SHARE REGISTRY

Computershare Limited
Level 2
45 St Georges Terrace
PERTH WA 6000
T +61 8 9323 2000
F +61 8 9323 2033

AUDITORS

Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
PERTH WA 6000
T +61 8 9429 2222
F +61 8 9429 2436

SECURITIES EXCHANGE LISTING

The Company's securities are listed on the official list of the Australian Securities Exchange Limited.

ASX CODE

Shares: NDO

CONTENTS

Nido Petroleum Limited

2011 SUMMARY

PRODUCTION

- A total of 2.18 MMbbls (gross) were produced from the Galoc oil field in 2011 with an average uptime of 98% (1 January to 23 November 2011).
- Revenue from crude oil sales increased by 6.0% from the previous year to $63.8 million.
- An independent reserves audit of the Galoc oil field up to 31 December 2011 resulted in the field's Estimated Ultimate Recovery (EUR) at the Proved (1P) category on a 100% basis increasing from 10.4 MMstb to 14.44 MMstb, an increase of 38.84%. Nido's remaining net entitlement share of 1P reserves is 1.27 MMstb[1] as at 31 December 2011.
- The Galoc FPSO 'Rubicon Intrepid' departed the field on 28 November 2011 for the Keppel Shipyard in Singapore to enable an upgrade to the Mooring and Riser System to be carried out.
- The Nido and Matinloc oil fields continued to produce oil on a cyclical basis. Oil production from these fields during the year totalled 126,345 bbls[2] (31,395 bbls net to Nido).

DEVELOPMENT AND APPRAISAL

- Front End Engineering and Design (FEED) for the Galoc Phase 2 development commenced in October 2011, with a Final Investment Decision (FID) expected in 2012.
- A new 3D Seismic Survey of 182 full-fold line kilometres was acquired over the Galoc oil field and Galoc North prospect as part of the FEED work scope, which was completed in early 2012.
- The SC 14C2 Joint Venture continued to focus on evaluating the potential re-development of the West Linapacan 'A' field which produced 8.5 MMbbls before being shut-in in 1996.
- Abandonment of the Tindalo oil field in SC 54A was completed in January 2011, and the Joint Venture demobilised the project equipment from the Service Contract area.

EXPLORATION

- The Company drilled the Gindara-1 well in the second quarter of 2011, encountering a 187 metre hydrocarbon column within the primary Nido Limestone reservoir based on the interpretation of the wireline logging data. Due to the poor quality of the Nido Limestone reservoir, the well was deemed non-commercial and was plugged and abandoned.
- The Operator of SC 63, PNOC-EC, commenced pre-planning for the Sub-Phase 3b commitment well, which is required to be drilled by November 2012.
- In December 2011, 73 full-fold line kilometres of new 2D seismic data was acquired over the Lawaan–Libas prospects in SC 54A and 430 full-fold line kilometres of new 2D seismic data was acquired over the Pawikan lead in SC 54B. Processing of the data sets is expected to be completed by the end of the second quarter of 2012.

HEALTH, SAFETY, SECURITY AND ENVIRONMENT (HSSE)

- The Company achieved excellent HSSE performance across all assets and activities during 2011. Total Recordable Injury Frequency Rate (TRIFR) for 2011 was 2.5.
- The 2011 HSSE performance compares favourably with the Australian National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) benchmark of 7.87 (June 2010 performance data).

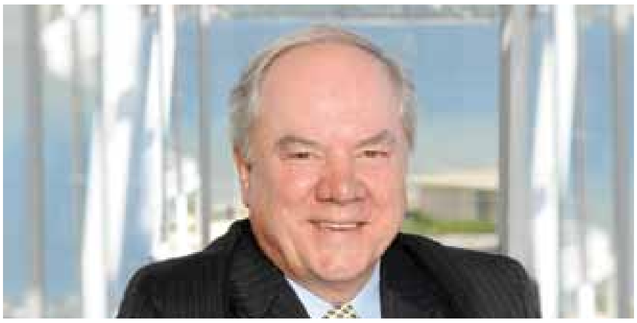
CORPORATE AND FINANCIAL

- Cash on hand at year end was $21.6 million.
- Gross profit for the year was $33.2 million, and net profit was $3.8 million.
- In June 2011 Nido repaid Merrill Lynch the remaining debt outstanding under the Convertible Note and ended the year debt free.
- Mr Jocot de Dios, Chief Executive Officer, gave notice to the Board that he would not be renewing his employment contract. Mr de Dios ceased employment with the Company on 20 January 2012.
- Mr Philip A. Byrne was appointed to the position of Chief Operating Officer (COO) and commenced with the Company on 29 December 2011. Mr Byrne was appointed Chief Executive Officer (CEO) effective from 20 January 2012.
- Dr. Michael Ollis was appointed to the Board of Directors on 1 October 2011, and Mr Vincent Pérez retired from his position as a Director on 17 November 2011.

[1] This information should be read in conjunction with the complete reserves table and the competent person's declaration on page 6.

[2] Total figures reported differ slightly from those reported in the Quarterly Reports due to delayed adjustments from Operator.

CHAIRMAN'S LETTER



Dear Shareholder,

I am pleased to present to you the Company's 2011 Annual Report.

The 2011 year was one of mixed results and change for Nido, although the outlook for the Company remains very promising. The highlight of the year was the continuing excellent production performance from the Galoc oil field in SC 14C1, which produced its 8 millionth barrel of oil in the third quarter of 2011 and led to a net profit after tax of $3.8 million and net cashflow from operating activities of $10.7 million.

While the Galoc oil field continued to perform strongly, the Gindara-1 well in SC 54B, drilled in the June quarter of 2011 with former farm-in partner Shell Philippines Exploration B.V., was deemed non-commercial due to the poor quality of the Nido Limestone reservoir. Despite this being an obviously disappointing result, the confirmed presence of a significant hydrocarbon column has positive implications for other prospects in the block.

Our confidence in the Company's highly prospective acreage holdings in the North West Palawan Basin was bolstered by a recent independent reserves audit of the Galoc oil field to 31 December 2011. This audit increased the Galoc field's Estimated Ultimate Recovery (EUR) at the Proved (1P) category (on a 100% basis) by 38.84% to 14.44 MMstb[3]. Nido's remaining net entitlement share of 1P reserves is 1.27 MMstb as at 31 December 2011[3].

The review by DeGolyer & MacNaughton of the Company's top 20 prospects and leads, as at 31 March 2011, resulted in an upgrade of the Company's Prospective Resource estimates[4]. This underpins our confidence in the upside potential of our exploration assets. Alongside a clear forward strategy for growth, I am confident that this strong asset base will deliver shareholder value in the long-term.

We are very proud to have maintained our excellent Health, Safety, Security and Environment (HSSE) track record across all operations in the year. At Nido, we pride ourselves on our excellent safety record. Since commencing offshore seismic and drilling operations in 2007, the Company has had zero Lost Time Incidents (LTIs) and we strive to maintain this flawless record.

Notwithstanding the prevailing volatile economic and financial market environment around the world, we were pleased to announce that Nido had become debt free in the second quarter of 2011.

Coupled with our cash flow from Galoc, and large portfolio of drill-ready prospects, this sets us apart from other junior oil and gas companies and positions Nido well for an exciting 2012.

Progress is continuing on the Phase 2 Development of the Galoc oil field, where we are looking to maximise the value of our holdings via a significant uplift in production. In the third quarter of 2011, we announced the Galoc Joint Venture's approval of a turret upgrade to the Galoc FPSO unit, which commenced towards the end of the year.

The upgrade aims to maintain the high uptime experienced in the first half of 2011, and is also a pre-investment in the field's Phase 2 Development. The Joint Venture also approved the Galoc Phase 2 Development FEED, including a new 3D Seismic Survey. Final Investment Design (FID) is expected to occur in 2012.

Looking to the year ahead, the Galoc Phase 2 Development will continue to be a key focus area, along with the optimisation of our shallow water portfolio and the ongoing high-impact exploration drilling program.

We are continuing discussions with potential farm-in partners in relation to our shallow water assets, including the Nido and Matinloc fields in SC 14A and SC 14B respectively, the West Linapacan field in SC 14C2, and the Lawaan prospect in SC 54A. We intend to maximise the value from these assets by investing where value can be extracted; optimising our position to balance risks and costs; and divesting non-core assets.

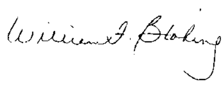
The next well in our exploration drilling campaign will be within SC 63 and is due to be drilled prior to the end of Sub-Phase 2b in November 2012. Pre-planning for this commitment well continues to progress and at this stage the leading contenders are the Aboabo and Apribada prospects.

This year, we welcomed Mr Philip Byrne to Nido's Leadership Team and look forward to exciting times ahead under his leadership. I would like to take this opportunity to thank our outgoing CEO, Mr Jocot de Dios, for his valuable contribution during his tenure and we wish him well for the future.

I would also like to thank Mr Vincent Pérez who stepped down as a Director having served on the Board since 2006. Vince's contacts and network within the South East Asian region were of great value to the Company, and we will miss his involvement. With Mr Pérez's departure we welcomed the appointment of Dr. Michael Ollis to the Board.

I would like to express my sincere thanks to my fellow Directors, our Leadership Team and our staff for their commitment and dedication during the year. I would also like to thank you, our shareholders, for your continued support of Nido and I look forward to reporting to you with further positive developments this year.

Yours sincerely,



William Bloking

Chairman

Nido Petroleum Limited

[3] This information should be read in conjunction with the full reserves table and the competent person's declaration on page 6.

[4] The complete DeGolyer & MacNaughton Prospective Resource Report was released to the ASX on 1 September 2011.

CHIEF EXECUTIVE OFFICER'S REPORT

Dear Shareholder,

I look forward to leading Nido's Leadership Team in delivering value from the Company's highly prospective production and exploration assets in the North West Palawan Basin.

In May 2011, the Company drilled the Gindara-1 well in SC 54B with former Joint Venture partner Shell Philippines Exploration B.V. Unfortunately, due to the poor quality Nido Limestone reservoir encountered in the well, the discovery was deemed non-commercial, and the well was plugged and abandoned.

This was a disappointing start to the Company's exploration drilling program. Nonetheless, the results from the drilling of Gindara confirm the presence of an active petroleum system in SC 54B, and will broaden the Company's understanding across the block, including the large Pawikan lead which has mean prospective resource potential of 613 MMbbls[5].

Meanwhile, the excellent production performance at the Galoc oil field was a highlight of 2011 with 7 off-take cargoes totalling 2.44 MMbbls (gross) lifted from the field in the year. The field performed strongly with high uptimes averaging 98% through the year prior to the Galoc field shut-in for FPSO upgrades on 23 November 2011. This strong performance at Galoc reaffirms our confidence in the potential of the asset and the field's Phase 2 development.

Most importantly, we maintained our excellent health and safety record during the year. We accumulated 399,728 man-hours during the year with zero fatalities, zero Lost Time Injuries and a Total Recordable Injury Frequency Rate (TRIFR) of 2.5. This TRIFR rate compares well with the Australian National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) current industry rate of 7.87 as at June 2010.

Production Activity

The excellent performance of the Galoc oil field underpinned the SC 14C1 Joint Venture's decision to enter FEED for the Phase 2 development of the field and install a turret mooring and riser system on the Galoc FPSO.

At the end of the year, fabrication and installation of the turret mooring and riser system undertaken at the Keppel Shipyard in Singapore was progressing on schedule with production expected to resume at the end of the first quarter of 2012. Furthermore, FEED for the Phase 2 development of the field remained on track for FID in 2012.

The Nido and Matinloc fields continue to produce on a cyclical basis, producing 74,858 bbls and 51,487 bbls respectively in 2011 (total net to Nido 31,395 bbls)[6] .

Exploration Activity

Nido's exploration drilling program commenced on 20 May 2011 with the spudding of the Gindara-1 well in SC 54B. The well was drilled to total depth of 3,660 metres measured depth (MD) using the semi-submersible drilling rig 'Atwood Falcon'.

Interpretation of the logging while drilling (LWD) and wire-line log data indicated the well encountered a 187 metre hydrocarbon column, comprising a 144 metre gas and possible 43 metre oil column in the Nido Limestone formation, the primary reservoir objective. Due to the poor quality of the Nido Limestone reservoir within the majority of the capped Gindara structural closure, the well was deemed to be non-commercial and was plugged and abandoned.

The Company will continue to implement its high impact exploration drilling program, targeting the major prospects within our portfolio. The next well to be drilled is located in SC 63 and will be selected from a number of prospects being matured from the Kawayan 3D seismic. Operator PNOC-EC continues to progress the subsurface work from which the drilling candidate will be selected during the first half of 2012.

During the third quarter of 2011, the Philippine Department of Energy (DOE) approved the SC 54A and SC 54B Joint Venture partners' application for a 12-month extension to Sub-Phase 6. The Sub-Phase will now end on 4 August 2012.

This extension provided additional time for the SC 54A and SC 54B Joint Venturers to acquire 73 and 430 full-fold line kilometres of new 2D seismic over the Lawaan-Libas prospects in SC 54A and the Pawikan prospect in SC 54B. Interpretation of the fully processed 2D seismic data sets is expected to be completed in the second quarter of 2012.

In SC 58, the seismic inversion and amplitude versus offset project was successfully completed at the end of 2011. The study supports the presence of good reservoir development in the primary Nido Limestone formation in the main Balyena, Butanding and Dorado prospects. This work has also highlighted the potential of the Bikuda and Bulador leads in the northern sector of the block, and as a consequence, Nido will acquire new 2D seismic over these leads in early 2012.

5 Net mean unrisked estimate of prospective oil resources as at 31 March 2011, per DeGolyer & MacNaughton Prospective Resource Report released to the ASX on 1 September 2011.

6 Total figures reported differ slightly from those reported in the Quarterly Reports due to delayed adjustments from Operator.

CHIEF EXECUTIVE OFFICER'S REPORT

Development & Appraisal Activity

In October 2011, the SC 14C1 Joint Venture commenced FEED for the Phase 2 development of the Galoc oil field. The FEED work scope includes the acquisition of a new 3D Seismic Survey over the Galoc field in order to optimally locate the placement of Phase 2 infill wells within the reservoir. FID is expected to be in 2012.

The Company has continued to support activities aimed at maximising the value of its shallow water portfolio. In SC 14C2, Operator Pitkin Petroleum Plc has progressed detailed reservoir studies of the West Linapacan field during the year with a view to the potential re-development of the field. These studies will continue into 2012 and could precipitate a decision by the SC 14C2 Joint Venture to re-develop the West Linapacan field which could lead to a well being drilled in late 2012 or in 2013, subject to Joint Venture approval and rig availability.

Reserves and Resources

Gaffney Cline and Associates (GCA) undertook an independent reserves audit for the Galoc oil field, up to 31 December 2011. This resulted in the Estimated Ultimate Recovery (EUR) at the Proved (1P) category level increasing from 10.4 MMstb as at 31 December 2010 to 14.44 MMstb, an increase of 38.84% on a 100% basis. The EUR of 2P and 3P categories increased to 22.89 MMstb and 29.44 MMstb respectively. Nido's remaining net entitlement share of 1P reserves is 1.27 MMstb[7] as at 31 December 2011.

Nido also commissioned DeGoyler & MacNaughton to conduct an independent Prospective Resource assessment of the Company's top 20 prospects and leads. The Report[8] estimated Gross Prospective Oil Resources for the Company's top 20 prospects and leads to be in excess of 6 billion barrels of oil (unrisked, most likely estimate), as at 31 March 2011 and underscores the potential value within the Company's exploration drilling portfolio.

Financial Activity

In June 2011, Nido repaid the remaining outstanding debt due under the Convertible Note held by Merrill Lynch. The Company remained debt free at the year end, and has maintained its prudent and economic approach to corporate operations. We continue to search for additional near-term revenue streams from within our asset portfolio to complement Galoc's oil sales revenue.

Looking ahead to 2012

Nido enters 2012 with a strong focus on delivering value and growth across the portfolio. The first part of 2012 will see the Company focus on the Galoc Phase 2 Development and progressing FEED towards a FID this year. The Company's high impact exploration drilling program will continue, with a commitment well to be drilled in SC 63 by November 2012.

Nido is also looking at new opportunities in exploration acreage released in the Philippines Energy Contracting Round No. 4 ("PECR4"). This is a competitive bid round with bid submission for 15 blocks due between April and July 2012. The award of blocks to the successful bidders is anticipated in the second half of 2012.

I have confidence in the Company's strategy and I am committed to delivering value and growth across Nido's balanced portfolio.

Yours sincerely,

Philip Byrne

Chief Executive Officer

Appointed CEO 20 January 2012

[7] This information should be read in conjunction with the complete reserves table and the competent person's declaration on page 6.

[8] The complete DeGolyer & MacNaughton Prospective Resource Report was released to the ASX on 1 September 2011.

PRODUCTION AND DEVELOPMENT

2011 Production Summary

Field	Gross Oil Production Year Total Bbls	Gross Oil Production Average Daily Bopd	Net Production to Nido Year Total Bbls	Net Production to Nido Average Daily Bopd
Galoc	2,183,190	6,676	499,503	1,528
Nido & Matinloc*	126,345	346	31,395	86
Tindalo	-	-	-	-
Total	**2,309,535**	**7,022**	**530,898**	**1,614**

* Total figures reported differ slightly from those reported in the Quarterly Reports due delayed adjustments from Operator.

Galoc – SC 14 Block C1, North West Palawan Basin, Philippines

The Company's wholly owned subsidiaries, Nido Production (Galoc) Pty Ltd and Nido Petroleum Philippines Pty Ltd, hold a combined 22.879% interest in Service Contract SC 14C1 which contains the Galoc oil field development.

Production Activities

The Galoc oil field performed strongly during the reporting period with approximately 2.18 MMbbls (gross), 499,503 bbls net to Nido, produced during the year and cumulative production from start-up to the end of 2011 of 8.46 MMbbls (gross).

The average production uptime for the field prior to shut in on 23 November 2011 was 98%. This was a significant improvement on the 84% uptime registered in 2010. The Galoc oil field achieved an average gross daily production rate of 6,676 barrels per day.

A total of 7 cargoes were sold to buyers in Korea and Thailand.

Facility Repairs and Enhancements

On 23 November 2011, the Galoc oil field was shut-in and the FPSO 'Rubicon Intrepid' departed the field for Singapore in order to upgrade the current mooring and riser system with a turret based mooring and riser production system. Installation of the upgraded system is expected to provide greater operational efficiency and consistency in uptimes for the remaining life of the field.

The upgrade is expected to take approximately 3 months, with production recommencing at the end of the first quarter of 2012. The fabrication and installation of the turret mooring and riser system is being completed in the Keppel Shipyard in Singapore.

Further Development

In September 2011, the SC 14C1 Joint Venture entered into FEED for the Phase 2 development of the Galoc oil field. The FEED work scope included the acquisition of a new 3D Seismic Survey over the Galoc oil field, in order to optimally locate the placement of Phase 2 infill wells within the reservoir. In addition the survey also covered the Galoc North prospect located immediately to the north of the Galoc oil field which will be considered as part of the FEED work scope.

The 3D seismic commenced in the fourth quarter of 2011, and was subsequently completed in early 2012 with 182 full-fold line kilometres of new seismic acquired. FID for a Phase 2 Development is expected to be in 2012.

Reserves

Nido commissioned Gaffney Cline & Associates (GCA) independently of the Galoc Joint Venture to update the Reserves audit of the Galoc oil field. The Estimated Ultimate Recovery (EUR) at the Proved (1P) category level on a 100% basis increased 38.84% to 14.44 MMstb, up from 10.4 MMstb as at 30 December 2010. The EUR of 2P and 3P categories also increased to 22.89 MMstb and 29.44 MMstb respectively. Reserves estimates as outlined below for the Galoc oil field represent GCA's estimates and are not necessarily those of the SC 14C1 Joint Venture partners.

The reserves position for Galoc field at is as shown in the table below.

Estimated Ultimate Recover (EUR) and Reserves [1] (100%) [2]	1P Proved [3] MMstb	2P Proved + Probable [3] MMstb	3P Proved + Probable + Possible [3] MMstb
EUR at 30 December 2010	10.4	18.3	26.9
EUR at 31 December 2011	14.44	22.89	29.44
Percentage Change in EUR	38.84%	25.05%	9.44%
Cum. Production October 2008 to 31 December 2011	8.46	8.46	8.46
Reserves at 31 December 2011	5.98	14.43	20.98
Nido's Net Entitlement Reserves at 31 December 2011	1.27	3.07	4.34

1 In accordance with ASX Listing Rule 5.11, the Company confirms that the hydrocarbon reserves information above was reviewed and signed off by Mr David S. Ahye, B. Eng., Principal, Asia-Pacific, Gaffney Cline & Associates, who is a member of the Society of Petroleum Engineers and has at least five years' experience in the sector. Mr Ahye is not an employee of the Company and consented in writing to the inclusions above of the hydrocarbon reserves information in the form and context in which it appears.

2 All oil volumes are quoted in Million Stock Tank Barrels (MMstb).

3 Please refer to the Glossary for definitions.

OPERATIONS REVIEW

Nido and Matinloc – SC 14 Blocks A & B, North West Palawan Basin, Philippines

Nido's wholly owned subsidiary, Nido Production (Galoc) Pty Ltd, holds a 22.486% working interest in the Nido oil field and a 28.283% working interest in the Matinloc oil field. Both the Nido and Matinloc oil fields are in late-life, cyclical production.

During 2011, both fields produced a combined total of 126,345 bbls[9], averaging 346 bopd (31, 395 bbls net to Nido). Revenue from crude oil sales relating to the Nido and Matinloc fields totalled $2.1 million for the year (2010: $2.2 million).

Tindalo Oil Field – SC 54 Block A, North West Palawan Basin, Philippines

The Company's wholly owned subsidiary, Nido Petroleum Philippines Pty Ltd, holds a 42.4% working interest in the SC 54A block.

Abandonment of the Tindalo oil field was completed in January 2011 and the Joint Venture demobilised the project equipment from the Service Contract area. The second and final cargo of 73,420 bbls (Nido share 31,130 bbls) was sold in the first quarter of 2011 with proceeds received in April 2011.

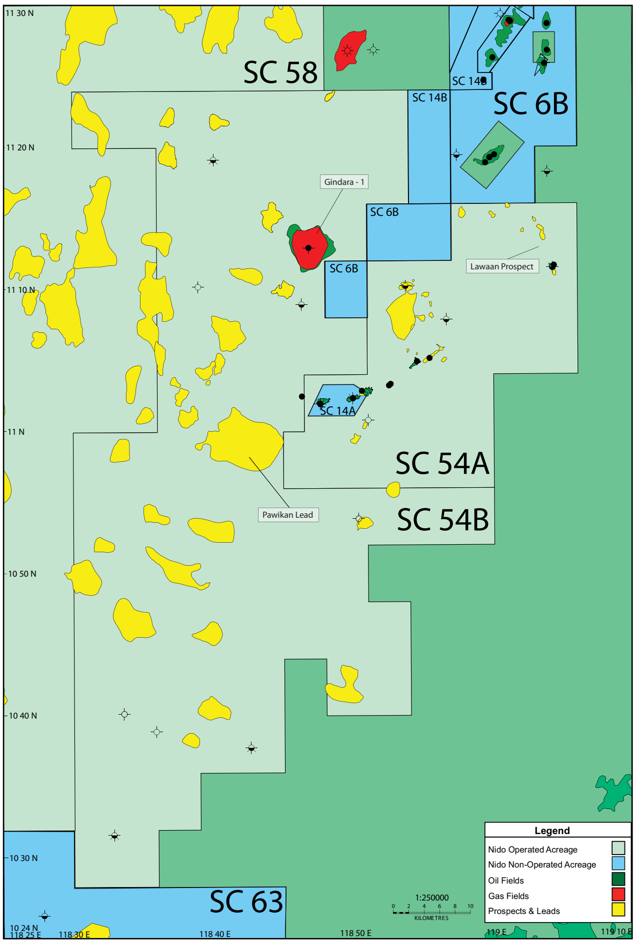
A complete independent external review of the Tindalo project was concluded in the first half of 2011, with the Joint Venture reviewing the results and noting the lessons to be learnt for any future developments.

9 Total figures reported differ slightly from those reported in the Quarterly Reports due to delayed adjustments from Operator.

OPERATIONS REVIEW

EXPLORATION

SC 54 Block A – North West Palawan Basin, Philippines



The Company's wholly owned subsidiary, Nido Petroleum Philippines Pty Ltd, holds a 42.4% working interest in SC 54A.

Following the abandonment of the Tindalo oil field in early 2011, the focus of the Joint Venture has been on reviewing the remaining exploration and development opportunities within the block.

Consequently, the SC 54A Joint Venture decided to acquire 73 full-fold line kilometres of additional 2D seismic data over the Lawaan–Libas prospects which was completed on 10 December 2011. The objective of the survey was to determine if the two prospects are connected and represent a single large drilling opportunity.

The Lawaan prospect is currently the highest ranked exploration prospect in SC 54A, with a prospective oil resource estimate for the Nido Limestone reservoir of 34.7 MMbbls[10]. Should the smaller Libas prospect be part of the main Lawaan closure, it could add a further 12.0 MMbbls[10] (gross, unrisked, mean volume) to the Lawaan closure.

The Company is still considering the potential development of the Nido 1x1 oil field but has decided to focus on the larger potential offered by the Lawaan prospect at this time.

A twelve month extension to Sub-Phase 6 of SC 54 was granted by the DOE during the third quarter of 2011. Sub-Phase 6 will now expire on 4 August 2012. The extension will provide the SC 54A Joint Venture with additional time to acquire, process and interpret the Lawaan-Libas Seismic Survey ahead of the decision to enter Sub-Phase 7.

SC 54 Block B - North West Palawan Basin, Philippines

The Company's wholly owned subsidiary, Nido Petroleum Philippines Pty Ltd, owns a 60% working interest in this block.

The main exploration activity in the block during 2011 was the drilling of the Gindara-1 exploration well. The well was spudded on 20 May 2011 and was subsequently drilled to a Total Depth of 3,660 metres Measured Depth (MD). The primary objective of the well was the Nido Limestone reservoir with a shallower Late Miocene turbidite reservoir providing a secondary objective.

Based on the interpretation of wire-line logs and the logging while drilling data, the well encountered a 144 metre gas and possible 43 metre oil column within the Nido Limestone reservoir objective. However, the predicted high quality Nido Limestone reservoir was encountered towards the base of the Gindara closure resulting in the majority of the structure consisting in poor reservoir quality limestones. The secondary Late Miocene reservoir was also found to be water bearing. Consequently, the well was deemed non-commercial and was plugged and abandoned.

Whilst the Gindara-1 well result was disappointing from a commercial perspective, the presence of hydrocarbons in the well and confirmation that good quality reservoir exists within the Nido Limestone section is a positive outcome with respect to the ongoing exploration program in the central and southern sectors of the block, and in particular, the large Pawikan structure located to the south of the Gindara-1 well.

The Pawikan structure is a large inversion structure approximately 56 sq. km. in size with the main reservoir target being the high quality Nido Limestone encountered in the Gindara-1 well. In order to mature the Pawikan lead to prospect status, an additional 430 full-fold line kilometres of new 2D seismic was acquired over the structure in December 2011. The seismic was acquired by Nordic Maritime Pty Ltd using the MV 'Nordic Energy'. Processing of the data is expected to be completed during the first half of 2012.

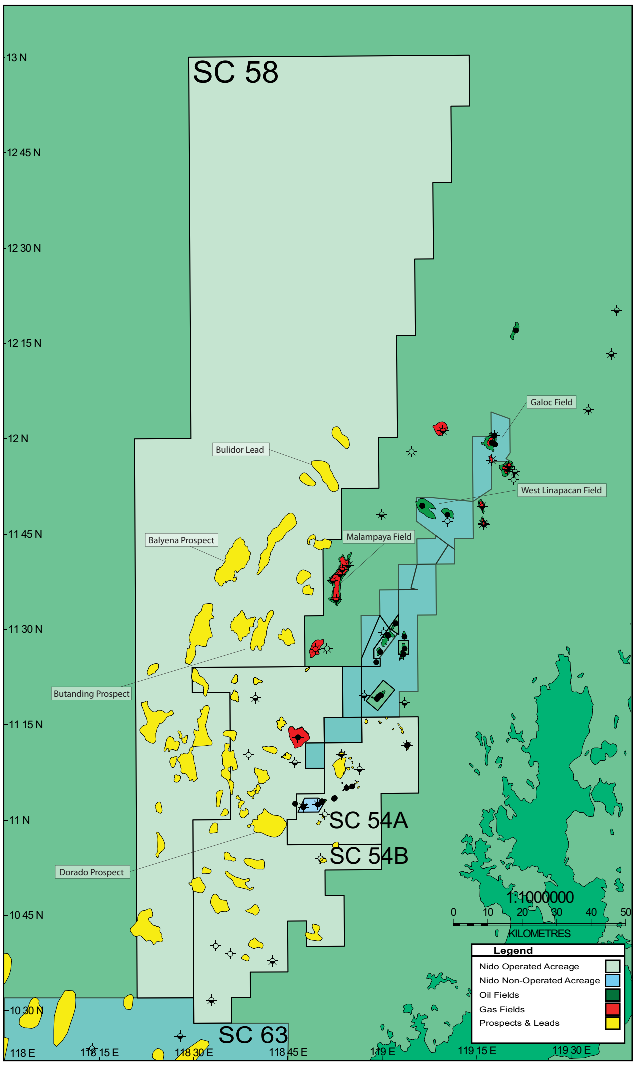
As a result of the extension granted by the DOE, Sub-Phase 6 will now expire on 4 August 2012. The extension provides the SC 54B Joint Venture with additional time to acquire, process and interpret the Pawikan 2D Seismic Survey ahead of the decision to enter Sub-Phase 7.

On 30 December 2011, Shell Philippines Exploration B.V. advised the SC 54B Joint Venture of their decision to withdraw from the block. Nido Petroleum Philippines Pty Ltd's participating interest reverted to 60% and Yilgarn Petroleum Philippines Pty Ltd's participating interest reverted to 40%.

[10] The complete DeGolyer & MacNaughton Prospective Resource Report was released to the ASX on 1 September 2011.

OPERATIONS REVIEW

SC 58 - North West Palawan Basin, Philippines



The Company's wholly owned subsidiary, Nido Petroleum Philippines Pty Ltd, holds a 50% working interest in the SC 58 block. The working interest is dependent upon the completion of the Company's obligations (which includes payment of 100% of the costs of drilling an exploration well in Sub-Phase 3 under its Farm-in Agreement with PNOC Exploration Corporation dated 17 July 2006).

The main exploration focus in SC 58 was the completion of the seismic inversion and amplitude versus offset project conducted over the leading drilling candidates Balyena, Butanding and Dorado. This work was completed in late 2011 with the results supporting the presence of potentially good reservoir development within the Nido Limestone in these deepwater prospects.

During the year, seismic mapping in the northern sector of the block identified the Bikuda and Bulador leads. These leads are located on trend with the West Linapacan oil field in SC 14C2 and offer dual reservoir objectives at the Nido Limestone and shallower Late Miocene-aged sandstone equivalent to the producing reservoir in the Galoc oil field in SC 14C1.

Given the limited existing 2D seismic coverage over these leads, an additional 1,000 full-fold line kilometres of new 2D seismic data was acquired over these structures in January 2012. The survey will mature these leads to prospect status and allow them to be added to the SC 58 prospect portfolio where they will be considered as potential drilling candidates to meet the Sub-Phase 3 commitment well.

Prior to year end, the Company sought agreement from the DOE and Joint Venture partner PNOC-EC, to extend Sub-Phase 3 of SC 58. The company also sought to defer the election to drill date under the Farm-in Agreement with PNOC-EC. The DOE has since approved a twelve month extension of Sub-Phase 3 (Sub-Phase 3 now expires on 12 January 2014) and PNOC-EC has agreed to defer the election to drill date to 30 June 2013.

SC 63, North West Palawan Basin, Philippines

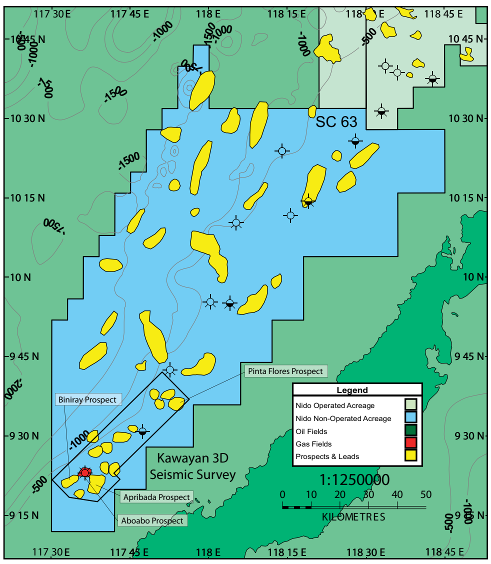
The Company's wholly owned subsidiary Nido Petroleum Philippines Pty Ltd holds a 50% working interest in the SC 63 block.

During the second quarter, the SC 63 Joint Venture agreed to enter into Sub-Phase 2b which carries a one well commitment which is required to be drilled by 24 November 2012.

The main focus of exploration work by Operator PNOC-EC has been the maturation of the Prospect and Lead inventory from the Kawayan 3D Seismic Survey. Due to the complex geology, the Joint Venture decided to reprocess the Kawayan 3D Seismic Survey in order to improve seismic imaging quality of the leads and prospects.

Reprocessing is expected to be completed in the first quarter of 2012. A number of potential drilling targets are being matured from the results of the survey including the Apribada, Pinta Flores and Biniray prospects and a re-drill of the Aboabo discovery.

Operator, PNOC-EC, commenced pre-planning drilling activities for the well that is required to be drilled prior to the expiration of Sub-Phase 2b on 24 November 2012.

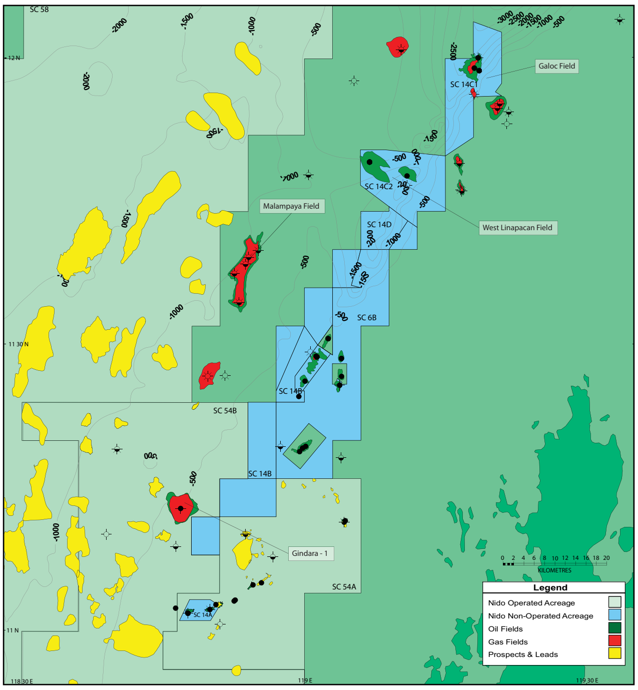


SC 14 Block C2 – West Linapacan, North West Palawan Basin, Philippines

The Company's wholly owned subsidiary, Nido Production (Galoc) Pty Ltd, holds a 22.279% working interest in the West Linapacan block.

Operator, Pitkin Petroleum Plc continues to focus on reviewing the West Linapacan 'A' oil discovery within the block as a potential re-development candidate. West Linapacan 'A' produced 8.5 MMbbls of oil from 1992 to 1996 before being shut-in in due to increasing water cut and low oil prices.

Subsurface work has focussed on reservoir modelling and reservoir simulation studies during the year which will extend into 2012. Subject to the outcome of this work, the Joint Venture will decide if re-development of the field is commercially viable which could lead to the drilling of a well in late 2012 or 2013.



SC 6 Block B - Bonita, North West Palawan Basin, Philippines

The Company's wholly owned subsidiary, Nido Petroleum Philippines Pty Ltd, owns a 7.81% working interest in this block.

The block contains the East Cadlao exploration prospect, a possible extension of the Cadlao oil field which is located in the adjacent SC 6 block (which Nido is not a participant in) and a number of Nido Pinnacle reef exploration targets.

Peak Oil and Gas Limited Philippines (a wholly owned subsidiary of Raisama Limited) is currently undertaking a technical work program on behalf of the SC 6B Joint Venture as part of a farm-in obligation.

New Activity

In addition to focussing on delivering value from its existing NW Palawan assets, the Company entered into a Joint Study and Bidding Agreement (JSBA) with Total E&P Activités Pétrolières to review fifteen new exploration blocks released by the DOE in the PECR4 acreage bid round. The closing date for submission of bids is between April and July 2012.

HEALTH, SAFETY, SECURITY AND ENVIRONMENT (HSSE)

HSSE performance for 2011 based on 399,728 man hours resulted in zero fatalities, zero Lost Time Injuries and a Total Recordable Injury Frequency Rate of 2.5 which compares well with the Australian National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) current industry rate of 7.87 as at 30 June 2010.

This result was marginally down on the Company's 2010 performance which recorded a TRIFR of 2.05 based on 977,788 man hours, but was nevertheless an excellent level of performance given the offshore operations undertaken in 2011, which included the drilling of the Gindara-1 well and the acquisition of seismic data in SC 54A and SC 54B.

PETROLEUM PERMIT INTEREST SCHEDULE

Philippines Permit	Basin	Nido Interest (%)	Approx Net Area (sq. km.)	Operator
SC 14 Block A	North West Palawan	22.49	5	Philodrill [1]
SC 14 Block B	North West Palawan	28.28	44	Philodrill [1]
SC 14 Block C1 [2]	North West Palawan	22.88	40	GPC [3]
SC 14 Block C2 [4]	North West Palawan	22.28	37	Pitkin [5]
SC 14 Block D	North West Palawan	31.42	55	Philodrill [1]
SC 6B	North West Palawan	7.81	43	Philodrill [1]
SC 54A	North West Palawan	42.40 [6]	441	Nido
SC 54B	North West Palawan	60.00 [7]	1,897	Nido
SC 58	North West Palawan	50.00 [8]	6,743	Nido [9]
SC 63	North West Palawan	50.00	5,336	PNOC [10]
		Total	**14,641**	

Data as at 31 December 2011:

1 The Philodrill Corporation

2 Galoc Block

3 Galoc Production Company WLL

4 West Linapacan Block

5 Pitkin Petroleum Plc

6 In March 2010 Nido Petroleum Philippines Pty Ltd farmed out a 7.6% participating interest in SC 54A to TG World (BVI) Corporation, a subsidiary of TG World Energy Corporation

7 Nido's interest reduced to 33% on 25 January 2011 when Shell Philippines Exploration B.V. farmed into SC 54B and reverted back to 60% on 30 December 2011 as a result of Shell Philippines Exploration B.V. withdrawing from the block

8 Subject to Nido completing its obligations under its Farm-in Agreement with PNOC Exploration Corporation

9 SC 58 operatorship reverts to PNOC Exploration Corporation upon completion of Nido's farm-in obligations

10 PNOC Exploration Corporation

The Directors of Nido Petroleum Limited are pleased to present the Annual Financial Report for the year ended 31 December 2011.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this Report are as follows. Directors were in office for the entire period unless otherwise stated.

William Bloking
FAICD

B.E Science (University of South Carolina) (Summa cum Laude)
Chairman (Appointed 15 May 2009, previously Non-Executive Director appointed 6 February 2008)
Member and Chair, Remuneration and Nomination Committee (Appointed 8 September 2008)
Member, Audit & Risk Management Committee (Appointed 6 September 2010)

Bill has over 38 years' experience in the energy sector, 33 of those with ExxonMobil and the BHP Billiton Group, holding senior executive positions in Australia, Asia, South America and the United States. Until his retirement in January 2007, Bill was President of Australia/Asia Gas at BHP Billiton Petroleum, where he had overall strategic, commercial and corporate accountability for BHP Billiton's international LNG business and its domestic gas business in Australia. Prior to joining BHP, he had spent 24 years with ExxonMobil holding a variety of senior executive positions including Chief Operating Officer of Esso Eastern Products Trading Company, Supply Operations Manager for the Far East and Western Hemisphere and General Manager of Natural Gas in Indonesia.

Bill is currently Executive Chairman and President of KAL Energy, Inc. (appointed 26 June 2007), Executive Director of Eureka Energy Limited (appointed 22 February 2012), Chairman of Transerv Energy Limited (appointed 14 March 2011) and he is a Non-Executive Director of the John Holland Group (appointed 1 January 2007), Miclyn Express Offshore Limited (appointed 19 February 2010), the Lions Eye Institute (appointed 1 October 2003), and the West Australian Symphony Orchestra (appointed 19 August 2005). He is also a Fellow of the Australian Institute of Company Directors, a Governor of the American Chamber of Commerce in Australia and an Adjunct Professor at Murdoch University.

Bill was formerly Chairman of Cool Energy Ltd (appointed 10 January 2007, resigned 6 March 2009), the National Offshore Petroleum Safety Authority (appointed 1 March 2008, resigned 25 August 2009), Norwest Energy NL (appointed 6 March 2007, resigned 30 June 2009), and Cullen Wines (Australia) Pty Ltd (appointed 27 May 2006, retired 21 November 2009).

David Whitby
MAICD

B.E. Mechanical (Royal Military College, Canada)
Non-Executive Director (Appointed 15 May 2009)
Former Chairman, Non-Independent (Appointed 6 February 2008 – Resigned 15 May 2009)
Former Managing Director (Appointed 21 July 2004 - Resigned 6 February 2008)
Member, Remuneration and Nomination Committee (Appointed 21 January 2010)

David's prior work experience includes appointments as Project Director of the West Java Gas Project with ConocoPhillips in Jakarta, Vice President of Corporate Development for Gulf Indonesia, Jakarta, President of Gulf (Australia) Resources Ltd in Perth and Vice President of Heavy Oil for Husky Oil in Canada. Prior to entering the oil industry, David was an officer in the Canadian Armed Forces military engineering branch.

David is the Non-Executive Chairman of Xstate Resources Limited (appointed 11 February 2011). David was formerly a Director of Cool Energy Pty Ltd (appointed 11 June 2007, resigned 9 February 2009). He is a member of the Australian Institute of Company Directors.

Eduardo V. Mañalac
AAICD

B.S. Geology, Post Graduate Petroleum Geology (Uni. of the Philippines)
Non-Executive Director, Independent (Appointed 20 February 2009)
Member, Audit and Risk Management Committee (Appointed 20 February 2009)
Member, Remuneration and Nomination Committee (Appointed 20 February 2009)

Ed has had a 35-year career in international petroleum exploration and production management, acreage acquisition, production sharing contracts and joint venture negotiations. During his early career he joined Oriental Petroleum and Minerals Corporation and started the first geological mapping of the Palawan Basin in the Philippines.

For 28 of those 35 years he enjoyed a career with Phillips Petroleum (now ConocoPhillips) in many parts of the world, most recently in China, and encouraged Phillips' initial entry into the Palawan Basin and similar areas in Indonesia. From 2003 to 2004 Ed was Undersecretary of the Department of Energy in the Philippines where he introduced the first public bidding round for exploration acreage targeting the Palawan Basin.

From 2004 to 2006 he was President and CEO of the Philippine National Oil Company (appointed 20 August 2004, resigned 31 October 2006) and its subsidiary PNOC Exploration Corporation (appointed 24 September 2004, resigned 31 October 2006), and was Chairman of PNOC Energy Development Corporation (appointed 13 September 2004, resigned 31 October 2006). Ed was a Non-Executive Director of Wellex Industries (appointed 7 January 2008, resigned 1 April 2010) a publicly listed energy, mining and exploration company in the Philippines of which he was Chairman up until January 2009.

Ed is the President of TransEnergy International Limited (appointed 28 November 2006), an energy resources consultancy company in the Philippines, where he has been the principal consultant since December 2006. More recently, in November 2009, Ed was appointed Non-Executive Director of Basic Energy Corporation (appointed 1 October 2009), another listed energy company in the Philippines. He is a member of the Australian Institute of Company Directors.

Andrew Edwards
FAICD

B.Com (University of Western Australia)
Non-Executive Director, Independent (Appointed 11 December 2009)
Member and Chair, Audit and Risk Management Committee (Appointed 11 December 2009)

Andrew is a former managing partner of PriceWaterhouseCoopers, Perth Office (PWC), past National Vice President of the (then) Securities Institute of Australia (now the Financial Services Institute of Australasia) and past President of the Western Australian division of that Institute, past State Chairman of the Institute of Chartered Accountants Local Education Committee and a past member of its National Education Committee.

Andrew is a current Board member of Mermaid Marine Australia Limited (appointed 18 December 2009), Mermaid Marine Vessel Operations Pty Ltd (appointed 1 February 2010), Mermaid Marine Supply Base Pty Ltd (appointed 1 February 2010), Mermaid Marine Charters Pty Ltd (appointed 1 February 2010), Activ Foundation Inc (appointed 27 October 2008) and is Chairman of MACA Limited (appointed 1 October 2010). He is also a Fellow of the Australian Institute of Company Directors.

Michael Ollis
GAICD

PhD Fluids (University of Bristol)
BSc Civil Engineering (University of Birmingham)
Non-Executive Director, Independent (Appointed 1 October 2011)

Dr. Ollis has over 30 years' of oil and gas experience including 16 years with BHP Billiton Petroleum in a variety of senior executive roles. Prior to his retirement from BHP Billiton Petroleum, Dr. Ollis held the position of Vice President, Australia Operated Assets, in which he had overall management accountability for all of BHP Billiton Petroleum's exploration, appraisal, and development activities at the Stybarrow and Pyrenees oil fields.

Dr. Ollis commenced his career as a Wellsite Petroleum Engineer and then Operations Engineer in the Petroleum Engineering Department of Shell Expro in the United Kingdom. Senior positions held by him during his career included Senior Operations Engineer for Brunei Shell Petroleum, Senior Drilling and Completions Engineering Supervisor for Hamilton Oil, Drilling Technology Manager (based in Melbourne) and Drilling Manager Americas (based in Houston) for BHP Petroleum.

Dr. Ollis is a member of the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) Advisory Board (appointed March 2009). The NOPSEMA Advisory Board is responsible for giving advice on matters pertaining to the offshore safety regime to the CEO of NOPSEMA, the Commonwealth Minister for the Department of Resources, Energy and Tourism, and relevant State and Territory Ministers. Dr. Ollis is a member of the Australian Institute of Company Directors.

J.V. Emmanuel (Jocot) Araullo de Dios
MAICD

B.Sc in BA (Uni. of the Philippines), LL.B (Ateneo de Manila University)
LL.M (Harvard Law School)
President and Chief Executive Officer (Appointed 6 February 2008 - Resigned 20 January 2012)

Jocot has over 15 years of experience in commercial and financial transactions, including within the international energy sector.

Jocot was Managing Director at Merritt Advisory Partners Inc., an energy advisory firm focusing on energy projects and transactions within Asia. Jocot also served as Chairman of the Board of publicly listed PNOC Exploration Corporation (the oil and gas arm of the Philippine National Oil Company), (appointed 3 November 2004, resigned 30 August 2005) and held the position of Undersecretary of the Philippine Department of Energy for three years where he led the preparation of the Philippine Energy Plan, supervised the country's downstream oil sector and participated in the restructuring of the Philippine power sector. He also held the position of President of Nido Petroleum Philippines Pty Ltd prior to his resignation.

Jocot has represented the Philippines in various international organisations including the APEC Energy Working Group. In 2005, Jocot received the prestigious Secretary's Award of Recognition for Distinguished Government Service. Jocot is currently a Non-Executive Director of the Boards of Phoenix Petroleum Philippines Inc., a publicly-listed downstream oil company in the Philippines (appointed 1 April 2007), and Davies Energy Services, Inc., an energy services company (appointed 10 March 2006). Jocot is a member of the Australian Institute of Company Directors.

DIRECTORS' REPORT

Vincent S Pérez

B.Bus. Econs (Uni. of the Philippines), MBA (Wharton School, Uni. of Pennsylvania)
Non-Executive Director, Independent (Appointed 5 April 2006 – Resigned 17 November 2011)
Member Audit and Risk Management Committee (Appointed 2 November 2006 – Resigned 6 September 2010)
Member Remuneration and Nomination Committee (Appointed 8 September 2008 – Resigned 21 January 2010)

Vince has over 17 years of experience in debt restructuring, capital markets and private equity in emerging markets, including appointments in Pittsburgh, London, New York and Singapore with Mellon Bank and Lazard Frères. In early 2001, he served as Philippine Undersecretary for Industry at the Department of Trade and Industry and Managing Head of this Department's Board of Investments. He then served as Philippine Energy Secretary from June 2001 to March 2005.

Vince has held Board positions on several listed companies including the Philippine National Bank (appointed 24 May 2005, resigned 30 May 2006), PNOC Energy Development Corporation (appointed 14 June 2007, resigned 31 July 2010), Del Monte Pacific Limited (appointed 2 August 1999, resigned 21 March 2001), and SM Investments Corporation (appointed 15 July 2005). Vince is currently Chairman of WWF Philippines and a member of the Board of Trustees of WWF International and the Board of Advisors of the Center for Business and the Environment at Yale University, Coca Cola Philippines, and Pictet Clean Energy Fund. He is the Chairman of Merritt Partners Pte Ltd and Merritt Advisory Partners Inc., and is Chief Executive Officer of Alternergy Philippine Holdings Corporation and Alternergy Philippines Investments Corporation.

John Newman
MAICD

COMPANY SECRETARY

BEc,LLB (Monash University)
(Appointed 4 November 2009)

John is a lawyer with over 19 years of experience, 11 of which have been in the energy and resources sector. John manages the Company group's legal, compliance and company secretarial affairs.

John's previous experience includes positions with the Timor Sea Designated Authority, Cridlands Lawyers and the Northern Land Council. Prior to working in a resources context John was the principal solicitor with the Refugee and Immigration Legal Centre in Melbourne.

John is currently a member of the Law Society of Western Australia, Australian Institute of Company Directors (AICD), the Resources and Energy Law Association (AMPLA), the Association of International Petroleum Negotiators (AIPN) and an affiliate of Chartered Secretaries Australia (CSA).

DIRECTORS' REPORT

DIRECTORS' AND COMMITTEE MEETINGS

The following table details the number of Directors' and Committee meetings held during the financial year and the number of meetings attended by each Director.

Board of Directors Meetings 2011

Directors	Held [1]	Attended
W Bloking	7	7
J de Dios	7	7
D Whitby	7	7
E Mañalac	7	6
A Edwards	7	7
M Ollis [2]	1	1
V Pérez [3]	7	5

Audit & Risk Management Committee Meetings 2011

Directors	Held [1]	Attended
A Edwards	3	3
W Bloking	3	3
E Mañalac	3	3

Remuneration & Nomination Committee Meetings 2011

Directors	Held [1]	Attended
W Bloking	3	3
E Mañalac	3	3
D Whitby	3	3

1 Number of meetings held during term of office.

2 Appointed 1 October 2011.

3 Resigned 17 November 2011.

DIRECTORS' INTERESTS IN SECURITIES OF THE COMPANY

As at the date of this Report, the interests of the Directors in the shares, options and performance rights of Nido Petroleum Limited were:

Director	Ordinary Shares	Options Over Ordinary Shares	Performance Rights Expiry/ Vesting Date 28 May 2013	Performance Rights Expiry/ Vesting Date 1 June 2014
W Bloking	2,500,000	Nil	Nil	Nil
D Whitby	11,893,524	Nil	Nil	Nil
E Mañalac	Nil	Nil	Nil	Nil
A Edwards	470,000	Nil	Nil	Nil
M Ollis	Nil	Nil	Nil	Nil

SHARE AND OPTION SCHEMES

Unissued shares

As at the date of this Report, there were 11,588,888 performance rights on issue (14,032,553 as at 31 December 2011) and there were also 10,000,000 unissued ordinary share rights outstanding under the COO Sign-On and Retention Bonus. Refer to Note 22 of the Financial Statements for further details of the outstanding unissued shares and performance rights as at 31 December 2011. Performance rights holders and the COO[11] (under the Sign-On and Retention Bonus) do not have any right to participate in any share issue of the Company or any related body corporate, unless they are already shareholders in the Company.

Shares issued as a result of the exercise of options and performance rights

During the financial year and up to the date of this Report, employees and Directors did not exercise any options or performance rights to acquire any fully paid ordinary shares (2010: nil).

CORPORATE GOVERNANCE

Recognising the need for the highest standards of corporate behaviour and accountability to shareholders, the Directors of the Company support the Principles of Corporate Governance which are detailed in the Company's Corporate Governance Statement set out in this Annual Report.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year, which occurred only in the Philippines, included:

- Exploration for oil and gas;
- Development of its oil and gas assets; and
- Production and sale of oil.

There were no significant changes in the nature of the principal activities during the year.

OPERATING AND FINANCIAL REVIEW

A full review of operations of the consolidated entity during the year ended 31 December 2011 is included in the section entitled "Operations Review" preceding this Directors' Report.

11 The COO, Mr Philip Byrne, was appointed CEO effective from 20 January 2012.

OPERATING AND FINANCIAL REVIEW - CONTINUED

Summary of Financial Performance

A summary of key financial indicators for the Company, with prior year comparison, is set out in the following table:

	Consolidated 2011 $'000	Consolidated 2010 $'000
Revenue from sale of crude oil	63,759	60,135
Gross profit	33,196	7,547
Net profit/(loss) before income tax, finance costs and fair value gain/(loss) on embedded derivative	13,380	(40,569)
Net profit/(loss) for the year after tax	3,795	(43,374)
Basic earnings/(loss) per share (cents) from continuing operations	0.27	(3.92)
Net cash from operating activities	10,675	3,195
Net cash from/(used in) investing activities	(8,486)	(16,814)
Net cash from/(used in) financing activities	(5,079)	21,655

The net profit of the Group for the year ended 31 December 2011 of $3.795 million (2010: loss $43.374 million), was impacted by the following significant items:

- Oil revenue totalled $63.759 million, of which revenue from the Galoc oil field for the year was $58.739 million (2010: $51.105 million), revenue from the Tindalo oil field for the year was $2.946 million (2010: $6.837 million), and revenue from the Nido and Matinloc oil fields for the year was $2.074 million (2010: $2.193 million).
- Cost of sales for the year decreased by $21.952 million to $30.724 million (2010: $52.676 million). The decrease was primarily due to abandonment of the SC 54A Tindalo oil field in January 2011, and therefore reduction in operating expenditure relating to this field.
- Other income of $1.072 million (2010: $2.424 million) relates primarily to insurance proceeds ($1.013 million) relating to the Galoc oil field.
- Total finance costs for the year of $2.809 million (2010: $3.739 million) primarily relate to the Convertible Note. The underlying debt relating to the Convertible Note was fully repaid in June 2011.
- The fair value gain on embedded derivative relates to the non-cash fair value movement of $1.775 million (2010: fair value gain of $7.965 million) in relation to the Convertible Note call option.

  The Convertible Note call option embedded derivative expired with the full repayment of the underlying debt.
- Total other expenses of $20.418 million (2010: $38.511 million), resulted primarily from the following:
  - o Employee benefits expense (net of share based payments expense) of $5.840 million (2010: $5.484 million);
  - o Share based payments of $0.331 million (2010: $0.109 million);
  - o Office and other expenses of $3.368 million (2010: $2.262 million);
  - o Impairment of exploration and evaluation expenditure which related to the drilling of the Gindara-1 well in SC 54B of $6.993 million, due to the discovery being deemed non-commercial; and
  - o Non-recurring abandonment field expenditure relating to the Tindalo oil field in SC 54A totalled $3.029 million.
- Net foreign currency loss of $0.470 million (2010: loss of $12.029 million) was due to the strengthening of the Australian dollar which had a negative impact on net United States dollar balances predominantly from AUD denominated parent company loans to subsidiaries (with USD functional currencies), offset by the impact of the USD Convertible Note debt in the parent company (with AUD functional currency).

Financing Activities

The Company's financing costs primarily represent costs of the Convertible Note which appear in the Statement of Comprehensive Income and in the Notes to the Financial Statements. For the year ended 31 December 2011, finance costs relating to the Convertible Note totalled $2.809 million (2010: $3.739 million.

The fair value of the call option represented the value of the option to the holder to convert the Convertible Note into fully paid shares in the Company. The fair value was determined using a Black Scholes model, taking into account factors such as share price volatility, expected life, exercise price and current share price. As the Company's share price changed, the value of the call option changed, resulting in a change to the liability reported in the Balance Sheet and an income or expense in the Statement of Comprehensive Income.

As at 31 December 2011, the fair value of the call option was nil (2010: $1.775 million) with the underlying debt fully repaid on 23 June 2011. The remaining bonds, convertible into a maximum of 9,038,714 ordinary shares, were surrendered as a result of the final payment of the underlying debt. Refer to Note 16 for further details.

OPERATING AND FINANCIAL REVIEW - CONTINUED

Summary of Financial Position

The Company's cash reserves at the end of 2011 totalled $21.561 million compared to $24.216 million on 31 December 2010. The movement in cash reserves was due primarily to net proceeds from oil production of $26.844 million and cash inflows from insurance proceeds and interest totalling $0.582 million, offset by: $0.089 million in development expenditure relating primarily to pre-FID expenditure for Galoc Phase 2 oil field development; repayment of principal and interest primarily relating to the Convertible Note of $6.012 million (not including the impact of conversions); exploration expenditure of $8.242 million predominantly relating to the drilling of the Gindara-1 well in SC 54B; exploration work conducted in relation to the maturation of the Prospect and Lead inventory from the Kawayan 3D Seismic Survey in SC 63 and seismic inversion studies in SC 58; income tax paid in the amount of $5.715 million; and overheads and other expenditures (including foreign exchange translation) of $10.023 million.

Production Activities

In 2011, Nido achieved the following key production milestones:

- 2.18 MMbbls (gross) were produced from the Galoc field.
- Production uptime at Galoc averaged 98% during the year.
- Revenue from crude oil sales increased by 6.0% from the previous year to $63.8 million.
- The Galoc FPSO 'Rubicon Intrepid' departed the field on 28 November for the upgrade to a turret mooring and riser system in the Keppel Shipyard in Singapore.
- The Nido and Matinloc oil fields continued to produce oil on a cyclical basis. Oil production from these fields in the year totalled 126,345[12] bbls of oil (31,395 bbls net to Nido).

Exploration & Evaluation Activities

In 2011, Nido undertook the following key exploration activities:

- The Company drilled the Gindara-1 well in the second quarter of 2011, encountering a 187 metre hydrocarbon column within the primary Nido Limestone reservoir based on the interpretation of the wireline logging data. Due to the poor quality of the Nido Limestone reservoir, the well was deemed non-commercial and was plugged and abandoned.
- The Operator of SC 63, PNOC-EC, commenced pre-planning for the Sub-Phase 3b commitment well, to be drilled prior to November 2012.
- In December 2011, 73 full-fold line kilometres of new 2D seismic data was acquired over the Lawaan–Libas prospects in SC 54A and 430 full-fold line kilometres of new 2D seismic data was acquired over the Pawikan lead in SC 54B. Processing of the data sets is expected to be completed by the end of the second quarter of 2012.

Development Activities

In 2011, Nido undertook the following key development activities:

- FEED for the Galoc Phase 2 development commenced in October 2011, with FID expected in 2012.
- In support of the Phase 2 FEED and the FID decision, the acquisition of a new 3D Seismic Survey over the Galoc field and Galoc North prospect occurred in early 2012.
- The SC 14C2 Joint Venture continued to focus on evaluating the potential re-development of the West Linapacan 'A' field which produced 8.5 MMbbls before being shut-in in 1996.
- Abandonment of the Tindalo oil field in SC 54A was completed in January 2011.

Corporate Activities

Convertible Note Conversions

During the year ending 31 December 2011, Merrill Lynch converted a total of $3.883 million worth of bonds, resulting in the issuance of 48,532,830 ordinary shares. The proceeds of the conversions were directly applied to the underlying debt repayable under the Convertible Note.

Restructure and Final Repayment of Convertible Note

In May 2011, the Company negotiated and completed a further restructuring of the Convertible Note held by Merrill Lynch. The key amendment to the terms of the Convertible Note was to reduce the June 2011 quarterly repayment amount to USD $1.093 million (previously USD $2.0 million).

On 23 June 2011, a further and final repayment of USD $0.648 million was paid to Merrill Lynch in order to repay in full all outstanding debt under the Convertible Note.

SC 54B – Shell Philippines Exploration B.V.

Shell Philippines Exploration B.V. farmed-in to the SC 54B block in January 2011, taking a 45% working interest. The Gindara-1 exploration well was drilled and completed in the June 2011 quarter, and subsequently plugged and abandoned.

Shell Philippines Exploration B.V. relinquished its interest in the block effective on 30 December 2011. Interests in the block are now Nido Petroleum Philippines Pty Ltd (Operator) 60% and Yilgarn Petroleum Philippines Pty Ltd 40%.

DIVIDENDS

No dividends were paid or declared by the consolidated entity during the financial year.

CORPORATE STRUCTURE

The Company is limited by shares and is incorporated and domiciled in Australia.

12 Total figures reported differ slightly from those reported in the Quarterly Reports due to delayed adjustments from Operator.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial year are detailed in the financial and activities review in this Report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue to maximise revenues from its interest in the Galoc oil field and, together with its Joint Venture Partners, work towards FID of the Phase 2 development. In addition, the Company will continue to assess potential opportunities for appraisal and development within SC 54A. The Company will continue to work together with PNOC-EC with the planning and ultimately the drilling of the SC 63 commitment well, due to be drilled by November 2012.

The Company continues to pursue strategic opportunities with respect to its assets and is in discussions with a number of potential partners concerning possible farm-out transactions

CORPORATE SOCIAL RESPONSIBILITY

Nido is committed to enhancing shareholder value by conducting international oil and gas exploration, development and production in a manner that, through its Corporate Social Responsibility Programs shares part of the benefits of this activity with the communities in which it operates.

Nido has adopted a two pronged approach to its Corporate Social Responsibility Programs. This involves the Nido Petroleum Foundation, Inc. (Nido Foundation) in the Philippines and the Company's Charitable Donations Committee, which actively encourages and supports staff as they work in a range of community organisations in Australia and the Philippines.

In 2011, Nido provided funds to the Centre for Health Improvement & Life Development in the Philippines which is a temporary shelter for patients from the provinces who have cancer or other diseases and have no place to stay in metro Manila while undergoing medical evaluation or treatment.

Funds were donated to St. Paul the Apostle Parish Medical & Dental Ministry which offers free medical/dental consultation and services, counselling and feeding programs for underprivileged residents of Manila.

Nido also assisted the Philippine Red Cross (PRC) during the year and in particular supported the PRC's emergency relief efforts with the impact of tropical storm Sendong.

Staff Involvement

Our community sponsorship program provides opportunities for our company and employees to become involved and support initiatives that can make a positive difference in the community.

During 2011 Nido supported staff involvement with the Queensland Government – Premier's Disaster Relief Appeal; Perth Hills Fire Appeal, 'New Zealand – Christchurch Earthquake Appeal; RSPCA Cupcakes Appeal; Manna Inc. (Soup Kitchen), Princess Margaret Foundation,' the End of Polio and the Lord Mayor's Distress Relief Fund – Margaret River Fires Appeal.

Nido proudly sponsored Mission Australia's Christmas Lunch in the Park and donated to the Salvation Army Food & Toy Appeal.

Further details on the Company's Corporate Social Responsibility activities can be accessed from the Company's website.

HEALTH, SAFETY, SECURITY AND THE ENVIRONMENT (HSSE)

The safety of the Company's people and our interaction with the environment are accorded the highest priority throughout the organisation. Since commencing offshore seismic and drilling operational activity in 2007 the Company has maintained an excellent safety record with zero fatalities and Zero Lost Time Injuries. Total Recordable Injury Frequency Rate (TRIFR) for 2011 was 2.5.

The Company recognises that while it is a small exploration and production company, it should strive to attain the highest levels of HSSE standards and practices in every facet of its current operational activities and business culture. In this context, the Company has an established HSSE System comprising 16 Standards which provides comprehensive guidelines for managing all HSSE aspects of the Company's business activities.

REMUNERATION REPORT (AUDITED)

For the purposes of this Report the term "Executive" includes those Key Management Personnel who are not Directors of the parent company or did not act in that capacity during the reporting period.

Details of Key Management Personnel

(i) Directors

W Bloking	Chairman (Non-Executive)
J de Dios	CEO (Executive Director) (Resigned 20 January 2012)
D Whitby	Director (Non-Executive)
E Mañalac	Director (Non-Executive)
A Edwards	Director (Non-Executive)
M Ollis	Director (Non-Executive) (Appointed 1 October 2011)
V Pérez	Director (Non-Executive) (Resigned 17 November 2011)

(ii) Executives

P Byrne	Chief Operating Officer (promoted to Chief Executive Officer effective 20 January 2012)
A Gilbert	Chief Financial Officer
J Pattillo	Head of Exploration
J Newman	General Counsel and Company Secretary
J Williams	Deputy Managing Director (Resigned 27 May 2011)
A Francis	Head of Commercial (Resigned 26 March 2010)

Between the reporting date and before the date the Financial Report was authorised for issue, Mr de Dios resigned as Chief Executive Officer of the Company. Mr Byrne assumed the role of Chief Executive Officer upon Mr de Dios's departure from the Company on 20 January 2012.

Remuneration Policy

During 2011, the Company amended aspects of its Remuneration Policy to conform with the relevant legislative changes in relation to the use of remuneration consultants and the hedging of equity-based incentive remuneration.

The Company has maintained its performance management procedure for Executives and staff and as part of such procedure each Executive undertakes a performance appraisal with the CEO each year. The CEO's performance is, in turn, reviewed by the Board.

Company Performance & Remuneration

The Company share price and earnings per share (EPS), shown in the Table below, reflect Company performance during the previous four financial years and for the current year ended 31 December 2011.

	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
EPS (cents)	0.27	(3.92)	(2.69)	0.71	(2.53)
Share price	0.04	0.115	0.185	0.093	0.28

Remuneration Principles

The Company has adopted the following principles in its remuneration framework:

Non-Executive Directors	Key Management Personnel
• The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, while incurring a cost which is acceptable to shareholders.	• Providing fair, consistent and competitive compensation and rewards to attract and retain high calibre employees; • Ensuring that total remuneration is competitive by market standards; • Incorporating in the remuneration framework both short and long term incentives linked to the strategic goals and performance of the Company and total shareholder return; • Demonstrating a clear relationship between individual performance and remuneration; and • Motivating employees to pursue and achieve the long term growth and success of the Company.

Remuneration Structure

In accordance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles and Recommendations) the structure of the Company's Non-Executive and Executive remuneration is clearly distinguished.

Non-Executive Remuneration Structure

The Company's Constitution and the ASX Listing Rules specify that the aggregate fees to be paid to Non-Executive Directors are to be approved by shareholders at a General Meeting. The latest determination was made at the Company's Annual General Meeting held on 9 May 2008 where shareholders approved an aggregate amount of $450,000 per year (all inclusive).

The fee structure for Non-Executive Directors is reviewed annually, which includes analyses of the fees paid to Non-Executive Directors of comparable companies, when undertaking the annual review process, and may include the use of external consultants. Following the amendments to legislation regarding the use of independent remuneration consultants, the Company has taken the position that independent external advice will be sought every second year.

REMUNERATION REPORT (AUDITED) - CONTINUED

The Board did not obtain any advice, nor did it receive any recommendation, from independent external consultants in relation to Non-Executive Director remuneration during the 2011 year.

In 2011, the Non-Executive Directors were paid fees associated with their duties as Directors, including their membership in Board committees. Each Director was paid a base fee of $65,000 per year, with the Chairman of the Board receiving an additional $45,000 for his role, the Chair of the Audit & Risk Management Committee receiving an additional $26,000 (40 per cent of the base fee) for his role, members of the Audit & Risk Management Committee receiving an additional $6,500 (10 per cent of the base fee) for their roles, and the Chair of the Remuneration and Nomination Committee receiving an additional $6,500 (10 per cent of the base fee) for his role. These additional payments recognise the additional time commitment by Non-Executive Directors who serve on sub-committees and the role of the Chairman.

These remuneration levels took effect from 1 July 2008 and have not been increased since that time notwithstanding an independent Report commissioned in 2010 identifying that the remuneration levels for the Non-Executive Directors were below market conditions. The Board has resolved not to increase Non-Executive Director remuneration levels at this time due to the abandonment of the Tindalo project, the lack of commercial success of the Gindara-1 well, and the depreciation of the Company's share price.

The Non-Executive Directors are not entitled to receive retirement benefits and do not participate in any incentive programs. Furthermore, the Company did not grant any options to Non-Executive Directors during 2011 in accordance with the Company's policy prohibiting grants of options to Non-Executive Directors.

Apart from their duties as Directors, some Non-Executive Directors undertake work for the Company on a consultancy basis pursuant to the terms of consultancy services agreements. Requests for services issued pursuant to the terms of these agreements may only be initiated by the CEO and must also be signed off by an independent Non-Executive Director. A copy of the request for services must also be provided to the Remuneration and Nomination Committee. The nature of the consultancy work varies depending on the expertise of the relevant Non-Executive Director. Under the terms of these consultancy agreements Non-Executive Directors receive a daily rate for the work performed and such rate is comparable to market rates that they would otherwise receive for their consultancy services.

During the year the Company introduced a rigorous assessment process to ensure the arm's length nature of any consultancy services agreement. An arm's length assessment is conducted each time a request for services is initiated by the CEO, which is then signed off by the Chairman of the Audit and Risk Management Committee if the fees for the services are $20,000 or less.

If the fees are in excess of $20,000 for any one request for services, then the full Board must endorse the request.

Following a review of these consultancy fees and in accordance with recommendations received from the Remuneration and Nomination Committee, the Board has determined that no increase will be made to Non-Executive Director consultancy fees for 2012.

The remuneration of Non-Executive Directors for the periods ending 31 December 2011 and 31 December 2010 is detailed further in this Remuneration Report. The amounts listed under 'Salary & Fees' include both Director fees and consultancy fees received by the Non-Executive Directors.

Alternate Directors

The Company does not currently have any Alternate Directors.

CEO and Executive Remuneration Structure

Executive Remuneration consists of the following key elements:

- Fixed remuneration; and
- Variable remuneration, comprising Short Term Incentives (STI) and Long Term Incentives (LTI).

The proportion of fixed remuneration and variable remuneration is established for each Executive by the Remuneration and Nomination Committee and approved by the Board in accordance with the Remuneration Policy, and the STI and LTI Plans.

Fixed Remuneration

Executives receive their fixed remuneration in the form of cash and fringe benefits. The fixed remuneration for Executives is detailed further in this Report.

The level of fixed remuneration is set to provide a base level of remuneration which is both appropriate for the position and competitive in the market. Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee and approved by the Board having regard to the Company's and individual performance, and relevant comparable remuneration in the oil and gas industry.

In the 2011 year following a review of the current market conditions by management with reference to comparable industry market data obtained from the National Rewards Group Inc (NRG), previously known as MEHRC (Minerals and Energy Human Resources Conference Remuneration Survey), and a subsequent review and recommendation by the Remuneration and Nomination Committee, an aggregate increase in salaries of up to 6.9% was awarded to Executives and staff, effective from 1 January 2012.

The Board did not obtain any advice, nor did it receive any recommendation, from independent external consultants in relation to CEO and Executive remuneration during the year as, consistent with its approach to the use of independent consultants with respect to Non-Executive Director remuneration, the Company has taken the position that independent external advice will be sought every second year.

REMUNERATION REPORT (AUDITED) - CONTINUED

Variable Remuneration – Short Term Incentive

Under the Company's STI Plan, STI payments are granted annually to staff, Executives and Executive Directors depending on the Company's annual performance goals and individual performance targets over the preceding year. The Remuneration and Nomination Committee retains the discretion to adjust individual bonuses to reward outstanding individual performance.

In determining the amount of the STI pool each year, the Company sets a number of performance criteria and assigns a weighting to each criterion. As against each criterion there are three levels of performance which can attract an award to the pool: threshold, target and stretch.

If the Company achieves the threshold level of performance the Company awards 80% of the target pool for that criterion. If the Company achieves the target level of performance the Company awards 100% of the target pool for that criterion and if the Company achieves the stretch level of performance the Company awards 120% of the target pool for that criterion. To the extent that the Company achieves less than the threshold level there is no award for this criterion and the pool is reduced accordingly.

The overall target STI pool available is 15% of the gross base salary of the Company's staff. The Board, however, retains discretion to withhold the award of any payments depending on the Company's closing cash position and its ability to comply with its commitments for the following year after bonuses are paid.

The amount of the available STI pool that staff and Executives are entitled to receive is dependent on their individual performance. An Executive's performance during the year is assessed against his or her individual performance agreement, which is set at the start of each year and includes key performance indicators (KPIs) relevant to their area of responsibility.

KPIs include financial metrics in terms of budgetary performance, operational metrics in terms of project progress, exploration activities and production activities, health and safety metrics as well as professional service metrics for the timeliness and accuracy of advice and support provided to the technical and operational parts of the business. These KPIs are chosen because they align individual performance with the achievement of Nido's strategic plan.

Subject to the overall pool that the Company has available for distribution, which is dependent on the Company's performance against the Company targets, if an individual achieves target on all of the relevant KPIs, the bonus such individual receives is 15% of his or her base (gross) salary. This applies to all staff and Executives including the CEO.

For 2011 the Board determined a set of STI targets reflecting the Company's strategy, business plan and budget. The 2011 STI targets for the Company were performance against budget, HSSE performance, metrics in relation to the Gindara-1 well, Galoc development and production, portfolio optimisation, strategic farm-out initiatives and relevant Joint Venture approvals to drill an exploration well.

Against this weighted group of performance targets the Company performed on target with respect to its performance against budget and Galoc development and production. The Company performed at stretch with respect to HSSE and at threshold with respect to portfolio optimisation and strategic farm-out initiatives and obtaining relevant Joint Venture approvals to drill an exploration well. The Company failed to reach threshold for the Gindara-1 well.

Given the achievement of between threshold and stretch for most of the target criteria the total STI bonus pool calculated in accordance with the STI policy amounted to 11.85% of the gross base salary of the Company's staff. However, owing to the Company's commitments for the 2012 year, and mindful of its share price performance over the period ending 31 December 2011, the Board resolved to reduce the total STI bonus pool to 5% of the gross base salary of the Company's staff. Individual awards have not yet been allocated and such awards will be disclosed in the 2012 Annual Financial Report.

The cash STI bonuses paid to Executives and Executive Directors in 2011 (based on assessments made against 2010 Performance Targets) amounted to $220,257 (2010: $24,459). The specific award to each Executive and Executive Director including the date of the award is listed further in this Report. No cash bonuses were paid to Non-Executive Directors.

In addition to the STI Plan, the CEO has the discretion to award cash bonuses on an "ad hoc" basis of up to a maximum net amount of $1,500 per project or task to any employee for exceptional work rendered. During the 2011 year, the CEO granted two ad hoc cash bonuses to staff (Non-Key Management Personnel) totalling $4,085 (gross). There are no specific performance hurdles nor any forfeiture conditions attached to these awards.

Variable Remuneration – Long Term Incentive

The Company has an Employee Performance Rights Plan (Plan) which was approved by Shareholders at the Company's Annual General Meeting on 21 May 2010. The objectives of the Plan are to:

- align employee incentives with shareholder interests;
- balance the short term with the long term Company focus; and
- attract and retain high calibre employees by providing an attractive long term retention tool that builds an ownership of the Company mindset.

Under the Plan and the Company's LTI Policy, the Board makes annual awards of performance rights to employees. The level of the award of performance rights is dependent on an employee's position within the Company.

REMUNERATION REPORT (AUDITED) - CONTINUED

Awards are issued as follows:

- 30% of base salary (Executive Directors and Leadership Team);
- 25% of base salary (degree qualified and management level roles); and
- 20% of base salary (all other staff).

The foregoing percentages can be amended at the discretion of the Board. The number of shares allocated will be based on a share price determined by the 10 day VWAP of an ordinary Nido share as at the date of the Board meeting approving the relevant allocation.

Subject to the Company achieving the performance criteria set out in the terms of the Plan, performance rights held by an employee may convert into shares in the Company. In the event the Company fails to achieve the performance criteria, all of the employee's performance rights lapse with no shares being issued. Furthermore, in the event that an employee leaves the Company prior to the expiration of the relevant vesting period for a particular award of performance rights, such performance rights also lapse.

The key performance criterion of the Performance Rights Plan is Nido's relative total shareholder return performance over a three year testing period when compared against the total shareholder return of a peer group of ASX listed oil and gas companies over the same period. The Board believes the three year performance period is an important design feature of the Plan as it allows time to ensure that any award is aligned with shareholder interests.

The peer group comprises the following companies: Woodside Petroleum Limited, Otto Energy Limited, Kairiki Energy Limited, AWE Limited, Horizon Oil Limited, Karoon Gas Limited, Senex Energy Limited, Nexus Energy Limited, New Zealand Oil and Gas Limited, Tap Oil Limited, Oilex Limited, Oil Search Limited, Pan Pacific Petroleum NL, Roc Oil Limited, AED Oil Limited and Santos Limited.

Nido's relative total shareholder return ranking against this peer group over the three year period determines the number of performance rights in a particular award that an employee becomes entitled to convert into shares as follows:

Performance Ranking Range Compared to Peer Group	Number of Performance Rights Exercisable
Below 50th percentile of relative total shareholder return as compared against the peer group	No performance rights exercisable
50th percentile of relative total shareholder return as compared against the peer group	50% of the rights in the Offer available to be exercised and converted into shares
51st percentile to 74th percentile of relative total shareholder return as compared against the peer group	For each Performance Ranking Range percentile increase above 50%, the number of performance rights exercisable and converted into shares in the Offer increases by 2% For example, if the Performance Ranking Range is at the 52nd percentile, 54% of the rights in the Offer are available to be exercised and converted into shares.
75th percentile or higher of relative total shareholder return as compared against the peer group	100% of rights in the Offer available to be exercised and converted into shares

By way of example if an employee is offered 500,000 performance rights and Nido performs at the 50th percentile against its peer group over the relevant 3 year testing period following the award of the performance rights, the relevant employee would be entitled to convert 50% of the performance rights into shares namely, 250,000 shares, following the completion of the testing period. The performance rights granted to Executives during the year are listed in this Report.

REMUNERATION REPORT (AUDITED) - CONTINUED

CEO and Executive Employment Contracts (excluding COO)

It is the Board's policy that employment contracts are entered into with the CEO and Executives. The CEO, Mr de Dios, was employed under a four-year fixed term contract subject to the approval of a Business Visa subclass 457. His employment contract provided that:

- Mr de Dios received fixed remuneration of $457,406 per annum, plus 12% superannuation;
- Mr de Dios, as an expatriate of the Philippines, also received, together with his family, other assistance including a motor vehicle, rent and education assistance, relocation costs and visas;
- In connection with Mr de Dios' expatriate status in Australia, the Company provided tax equalisation assistance by paying the difference between the higher host country tax rate in Australia and the applicable lower tax rate in the Philippines. This tax equalisation did not apply to non-employment income derived in the Philippines during Mr de Dios' period of employment or to employee share plans. The Company also procured tax advice and assistance with the preparation and lodgement of Mr de Dios' annual tax return whilst in Australia;
- Mr de Dios resigned from his position as Chief Executive Officer on 20 January 2012. Upon his resignation his performance rights were forfeited in accordance with the terms of the Company's 2010 Performance Rights Plan and share-based payments expenses in relation to these performance rights have been reversed.

There were no termination benefits provided to Mr de Dios upon his resignation.

The contracts with Executives specified under the Remuneration of Directors and Executives table have no termination date and under the terms of the contracts:

- The Executive may resign from his or her position and thus terminate his or her contract by giving one month's written notice; and
- In the event that the Company wishes to terminate an Executive's employment, except in circumstances of misconduct or material breaches of their contract and, with the exception of the Company Secretary and the Chief Operating Officer, the Company will pay the Executive a sum equivalent to 12 months of his or her fixed remuneration package[13].

Chief Operating Officer [14]

On 29 December 2011, the Company appointed Mr Philip Byrne as Chief Operating Officer. A summary of Mr Byrne's employment contract is as follows:

- Base Salary - $500,000 per annum;
- Superannuation 12% - $60,000 per annum;
- Short term incentive – Mr Byrne will participate in the Company's performance based Short Term Incentive Scheme;
- Long term incentive – Mr Byrne will participate in Nido's Employee Performance Rights Plan;
- A Sign on and Retention Bonus was granted of 10,000,000 fully paid ordinary shares in total issued in six (6) equal tranches at six (6) month intervals commencing six (6) months after the commencement of employment. The first five (5) tranches will be 1,666,667 ordinary shares with the final tranche being 1,666,665 ordinary shares.
- Termination - In the event of termination of the employment contract by the Company (other than for cause in which case no further shares shall be issued) a maximum of 1,666,667 of any of the unvested shares shall be issued, and a six month notice period applies. In the event of termination by the employee the Company is not obliged to issue any unvested shares.

Effective from 20 January 2012, Mr Byrne was promoted to Chief Executive Officer. The summary of this employment contract as above remains unchanged.

13 Mr Newman's (Company Secretary) employment contract does not provide a termination benefit but provides for a 12 month notice period in the event of termination by the Company.

14 Appointed as Chief Executive Officer effective from 20 January 2012.

REMUNERATION REPORT (AUDITED) - CONTINUED

The table below sets out the Sign on and Retention Bonus granted to Mr Byrne. The share rights are issued free of charge and entitle the holder to subscribe for one fully paid ordinary share in the Company.

	Terms and Conditions of Each Grant							
	Number of Shares Granted	Number of Shares Vested[15]	Percentage of Shares Vested (%)	Grant Date	Value each at Grant Date $	Number of Shares Forfeited	Percentage of Shares Forfeited (%)	Exercise Price
2011								
Executive								
P Byrne	10,000,000	1,666,667	16.67%	08/10/11	0.045	Nil	Nil	Nil
Total	10,000,000	1,666,667						

Remuneration of Key Management Personnel – Directors

	Short Term			Post Employment	Share Based Payments (LTI)				
	Salary & Fees	Cash Bonus (STI)(**)	Other(#)	Superannuation	Performance Rights*	Options/ Shares*	Total	% Comprising Options & Performance Rights***	% Performance Related***
W Bloking									
▪ **2011**	**184,067**	**-**	**-**	**9,816**	**-**	**-**	**193,883**	**-**	**-**
▪ 2010	112,617	-	-	38,136	-	-	150,753	-	-
J de Dios [1#]									
▪ **2011**	**684,887**	**61,583**	**194,963**	**51,283**	**(25,268) ^**	**-**	**967,448**	**-**	**6.4%**
▪ 2010	657,571	-	189,157	53,550	25,268	207,975	1,133,521	20.6%	2.2%
D Whitby									
▪ **2011**	**169,133**	**-**	**-**	**5,367**	**-**	**-**	**174,500**	**-**	**-**
▪ 2010	105,556	-	-	5,367	-	-	110,923	-	-
E Mañalac									
▪ **2011**	**65,596**	**-**	**-**	**5,904**	**-**	**-**	**71,500**	**-**	**-**
▪ 2010	80,596	-	-	5,904	-	-	86,500	-	-
A Edwards									
▪ **2011**	**83,486**	**-**	**-**	**7,514**	**-**	**-**	**91,000**	**-**	**-**
▪ 2010	86,917	-	-	7,823	-	-	94,740	-	-
M Ollis[2]									
▪ **2011**	**5,750**	**-**	**-**	**10,500**	**-**	**-**	**16,250**	**-**	**-**
▪ 2010	-	-	-	-	-	-	-	-	-
V Pérez[3]									
▪ **2011**	**91,503**	**-**	**-**	**4,725**	**-**	**-**	**96,228**	**-**	**-**
▪ 2010	63,020	-	-	5,672	-	-	68,692	-	-
Total Remuneration: Directors									
▪ **2011**	**1,284,422**	**61,583**	**194,963**	**95,109**	**(25,268)**	**-**	**1,610,809**	**-**	**3.8%**
▪ 2010	1,106,277	-	189,157	116,452	25,268	207,975	1,645,129	14.2%	1.5%

15 For accounting purposes under AASB2 "Share Based Payments" treated as vested for the year ending 31 December 2011.

REMUNERATION REPORT (AUDITED) - CONTINUED

Remuneration of Key Management Personnel – Executives

	Short Term			Post Employment	Share Based Payments (LTI)				
	Salary & Fees	Cash Bonus (STI)[(**)]	Other[(#)]	Superannuation	Performance Rights[*]	Options/ Shares[*]	Total	% Comprising Options & Performance Rights[***]	% Performance Related[***]
J Williams [4#]									
▪ **2011**	**155,099**	**21,689**	**8,390**	**10,483**	**(21,486)^**	**-**	**174,175**	**-**	**12.5%**
▪ 2010	339,120	3,824	3,473	36,960	21,486	-	404,863	5.3%	6.3%
P Byrne [5#]									
▪ **2011**	**3,846**	**-**	**-**	**462**	**-**	**76,873**	**81,181**	**94.7%**	**94.7%**
▪ 2010	-	-	-	-	-	-	-	-	-
J Pattillo [#]									
▪ **2011**	**407,206**	**61,424**	**9,053**	**55,960**	**64,196**	**-**	**597,839**	**10.7%**	**21.0%**
▪ 2010	396,240	7,459	8,183	47,578	25,353	-	484,813	5.2%	6.8%
A Francis [6#]									
▪ **2011**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
▪ 2010	80,177	1,912	32,421	8,578	-	(364,427)^	(241,339)	-	(0.8)%
A Gilbert[#]									
▪ **2011**	**308,820**	**43,026**	**8,149**	**24,317**	**44,968**	**-**	**429,280**	**10.5%**	**20.5%**
▪ 2010	285,131	3,757	8,544	25,683	17,760	4,123	344,998	6.3%	6.2%
J Newman[#]									
▪ **2011**	**262,838**	**32,534**	**5,728**	**24,800**	**36,347**	**-**	**362,247**	**10.0%**	**19.0%**
▪ 2010	209,760	7,507	17,703	25,200	13,429	-	273,599	4.9%	7.7%
Total Remuneration: Executives									
▪ **2011**	**1,137,809**	**158,673**	**31,320**	**116,022**	**124,025**	**76,873**	**1,644,722**	**12.2%**	**21.9%**
▪ 2010	1,310,428	24,459	70,324	143,999	78,028	(360,304)	1,266,934	6.5%	8.1%

REMUNERATION REPORT (AUDITED) - CONTINUED

Remuneration of Key Management Personnel - Notes

1 Resigned on 20 January 2012 as Chief Executive Officer

2 Appointed on 1 October 2011 as Non-Executive Director

3 Resigned on 17 November 2011 as Non-Executive Director

4 Resigned on 27 May 2011 as Deputy Managing Director

5 Appointed on 29 December 2011 as Chief Operating Officer and appointed on 20 January 2012 as Chief Executive Officer

6 Resigned on 26 March 2010 as Commercial Manager

Includes non-cash benefits paid

^ Credit of $364,427 for the year ended 31 December 2010 and $21,486 and $25,268 for the year 31 December 2011 due to forfeiture of options and performance rights which is in accordance with AASB 2 "Share Based Payments", resulting from resignations outlined in points (1), (4) and (6)

* The amount included as remuneration relating to options and performance rights is not related to or indicative of the benefit (if any) that the individual may ultimately realise. The fair value of these instruments as at their date of grant was determined in accordance with AASB 2 "Share Based Payments" applying valuation models. Details of the assumptions underlying the valuations are set out in Note 22 to the Financial Statements

** The details for cash bonuses paid during 2011 are set out in the table immediately below. The payments reflect each Executive's performance against the STI targets that were chosen in 2010. Cash bonuses for performance against the 2011 STI targets will be made in 2012 (refer to page 22)

*** Share-based payments forfeiture excluded from calculation

Key Management Personnel	Grant Date	Amount Paid	Nature	Max. Potential Entitlement*	Percentage Granted	Percentage Forfeited
Jocot de Dios	05/04/11	30,792	Cash	18%	13.8%	4.2%
	26/08/11	30,792	Cash			
Jonathan Pattillo	23/03/11	30,712	Cash	18%	15.5%	2.5%
	26/08/11	30,712	Cash			
Ashley Gilbert	23/03/11	21,513	Cash	18%	15.5%	2.5%
	26/08/11	21,513	Cash			
John Newman	23/03/11	16,267	Cash	18%	15.5%	2.5%
	26/08/11	16,267	Cash			
Joanne Williams	23/03/11	21,689	Cash	18%	12.9%	5.1%
	26/08/11	Nil	n/a		Resigned 27/05/11 prior to allocation	
Philip Byrne	-	-	-	Nil	-	-

* Under the Company's STI Policy, the maximum potential entitlement is 18% of an individual's base salary.

For the year ended 31 December 2011, no options which were granted to Directors in previous years were exercised.

The amounts disclosed above do not include insurance premiums paid in relation to Directors' and Officers' liability insurance as the terms of the insurance policy preclude disclosure of these amounts.

REMUNERATION REPORT (AUDITED) - CONTINUED

Compensation Options and Performance Rights to Directors – Granted and vested during the year

The table below sets out performance rights granted during the year to Directors, together with options and performance rights granted in previous years which vested during the year. The options and performance rights were issued free of charge and entitle the holder to subscribe for one fully paid ordinary share in the Company.

	Terms and Conditions of Each Grant						
	Number of Options Granted	Number of Performance Rights Granted	Grant Date	Value of each Right at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date/ Expiry Date
2011							
Directors							
J de Dios*	-	1,347,047	1/6/11	0.103	Nil	1/6/14	1/6/14
Total	-	1,347,047					
2010							
Directors							
J de Dios*	-	1,047,535	28/5/10	0.122	Nil	28/5/13	28/5/13
Total	-	1,047,535					

* For accounting purposes under AASB2 "Share Based Payments" the performance rights noted in this table were forfeited as at the date of Mr de Dios' resignation.

	Number of Options Vested During the Year	% of Options Vested During the Year	Number of Performance Rights Vested During the Year	% of Performance Rights Vested During the Year
2011				
Directors				
J de Dios	-	-	-	-
Total	-		-	
2010				
Directors				
J de Dios*	4,000,000	44%	-	-
Total	4,000,000		-	

* Options vested and lapsed during the year ending 31 December 2010.

For vesting conditions refer to Note 22 (b) for details.

REMUNERATION REPORT (AUDITED) - CONTINUED

Compensation Options and Performance Rights to Executives – Granted and vested during the year

The table below sets out performance rights granted to Executives during the year, together with options and performance rights granted in previous years which vested during the year. The options and performance rights were issued free of charge and entitle the holder to subscribe for one fully paid ordinary share in the Company.

	Terms and Conditions of Each Grant						
	Number of Options Granted	Number of Performance Rights Granted	Grant Date	Value each at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date/ Expiry Date
2011							
Executives							
P Byrne	-	-	-	-	-	-	-
J Williams	-	1,029,090	28/3/11	0.084	Nil	28/3/14	28/3/14
J Pattillo	-	1,237,677	28/3/11	0.084	Nil	28/3/14	28/3/14
J Newman	-	765,692	28/3/11	0.084	Nil	28/3/14	28/3/14
A Gilbert	-	866,970	28/3/11	0.084	Nil	28/3/14	28/3/14
Total	-	3,899,429					
2010							
Executives							
J Williams	-	788,732	30/4/10	0.122	Nil	30/4/13	30/4/13
J Pattillo	-	930,704	30/4/10	0.122	Nil	30/4/13	30/4/13
J Newman	-	492,958	30/4/10	0.122	Nil	30/4/13	30/4/13
A Gilbert	-	651,942	30/4/10	0.122	Nil	30/4/13	30/4/13
A Francis	-	-	-	-	-	-	-
Total	-	2,864,336					

	Number of Options Vested During the Year	% of Options Vested During the Year	Number of Performance Rights Vested During the Year	% of Performance Rights Vested During the Year
2011				
None	-	-	-	-
2010				
Executives				
A Gilbert*	200,000	10%	-	-
A Francis*	625,000	25%	-	-
Total	825,000		-	

* Options vested and lapsed during the year ending 31 December 2010.

REMUNERATION REPORT (AUDITED) - CONTINUED

Value of Options and Performance Rights Granted as Part of Remuneration

	Value of performance rights granted during the year $	Value of performance rights exercised during the year $	Value of performance rights lapsed during the year* $	Remuneration consisting of performance rights during the year %
2011				
Directors				
J de Dios**	138,746	-	107,756	13%
Executives				
P Byrne	-	-	-	-
J Williams**	86,444	-	254,495	50%
J Pattillo	103,965	-	-	17%
J Newman	64,318	-	-	18%
A Gilbert	72,825	-	-	17%
2010				
Directors				
J de Dios	127,799	-	-	11%
Executives				
J Williams	96,225	-	-	23%
J Pattillo	113,546	-	-	23%
J Newman	60,141	-	-	21%
A Gilbert	79,537	-	-	22%

* Value calculated on share price on date of forfeiture.

** All performance rights relating to Mr de Dios and Ms Williams have been forfeited with no benefit being received.

There were no options granted as part of remuneration to Directors or Executives in 2011 or 2010.

Shares Issued on Exercise of Compensation Options and Performance Rights

	Shares Issued Number	Paid per Share $	Unpaid per Share $
2011			
Directors and Executives			
None	-	-	-
2010			
Directors and Executives			
None	-	-	-

End of Remuneration Report.

DIRECTORS' REPORT

INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the year the Company paid premiums in respect of a contract insuring all Directors and Officers of the Company and its controlled entities against liabilities incurred while performing duties as Directors or Officers to the extent permitted by the *Corporations Act 2001*. Due to a confidentiality clause in the contract, the amount of the premium has not been disclosed.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company's environmental obligations are regulated under the laws of the countries in which Nido has operations. It is the Company's policy to comply with its environmental performance obligations and, where possible, adhere to higher standards than what is required.

As set out in the Company's Health, Safety, Security and Environment Policy, the Company is committed to enhancing shareholder value by carrying out international oil and gas exploration, development and production activities in a manner that protects health, safety, security and the environment. The Company is committed to conducting its business in a manner that minimises the adverse impact on employees, contractors, the community and the environment that may be affected by its work activities.

To achieve this, the Company:

- Demonstrates a strong commitment to health, safety, security and environmental care through its behaviour;
- Complies with health, safety, security and environmental obligations and regulations of the country of operations whilst striving for higher standards;
- Commits to the continuous improvement of its health and safety behaviour and environmental culture;
- Respects local culture and is proactive in recognising its responsibility to meet and exceed community expectations; and
- Designs local solutions for local issues, creating positive change.

The Company believes that no task is so urgent that it cannot be done safely and that health, safety, security and the environment are of paramount concern in planning and carrying out every task. The Company is committed to caring for the people and the environment connected with its work.

The Company has also adopted an emergency response plan and health, safety, security and environmental procedures which have been the subject of information and training to staff and contractors. Environmental liability risks are also managed through contract terms and insurance policies. The above measures represent prudent risk management controls designed to minimise the risk of negative environmental impacts.

No environmental breaches have been notified by any applicable government agency as at the date of this Report.

Details in relation to the abandonment and restoration obligations of the Company in the Philippines associated with its existing operations and facilities are set out in Notes 14 and 15 of the Notes to the Financial Statements.

The Company regularly reviews changes to environmental regulations that may affect or pose a risk to the Company's business activities and where appropriate, amends such policies and procedures as necessary. In the coming year, the Company will, amongst other things, consider the potential risks associated with climate change and their impact on the Company's business, both in terms of the impact of weather on the Company's operations and the regulatory changes which will ensue in Australia and the Philippines.

SUBSEQUENT EVENTS

The Company has identified the following as events occurring after year end:

- Jocot de Dios, Chief Executive Officer ceased employment with the Company as at close of business on 20 January 2012.
- Philip Byrne was appointed Chief Executive Officer effective from 20 January 2012.
- Prior to year end, the Company sought agreement from the DOE and Joint Venture partner PNOC-EC, to extend Sub-Phase 3 of SC 58. The company also sought to defer the election to drill date under the Farm-in Agreement with PNOC-EC. The DOE has since approved a twelve month extension of Sub-Phase 3 (Sub-Phase 3 now expires on 12 January 2014) and PNOC-EC has agreed to defer the election to drill date to 30 June 2013.
- Nido Petroleum Philippines Pty Ltd as operator of SC 58 Joint Venture acquired 1,000 full-fold line kilometres of new 2D seismic over the greater Bikuda - Bulador prospect area in the northern sector of SC 58.

ROUNDING

The amounts contained in this Report and in the Financial Statements have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

DIRECTORS' REPORT

AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

Auditor's Independence Declaration

The Auditor's Independence Declaration is included in the next page of this Report.

Non-Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received, or are due to receive, the following amounts for the provision of non-audit services:

Tax compliance and advice services	$ 38,800

Signed in accordance with a Resolution of the Directors.

William Bloking FAICD
Chairman
20 March 2012

ERNST & YOUNG

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Auditor's Independence Declaration to the Directors of Nido Petroleum Limited

In relation to our audit of the Financial Report of Nido Petroleum Limited for the financial year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R A Kirkby
Partner
Perth
20 March 2012

RK:SS:NIDO:008

Since the introduction of the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* (ASX Principles and Recommendations) and the revised second edition of the ASX Principles and Recommendations, Nido Petroleum Limited has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. The Company's corporate governance practices for the year ended 31 December 2011 and as at the date of this Report are outlined in this Corporate Governance Statement.

The Company has considered each recommendation provided in the ASX Principles and Recommendations, taking into account the size of the Company and the Board, the resources available and the nature of the activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the ASX Principles and Recommendations, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice.

Further information about the Company's corporate governance practices is provided on the Company's website at www.nido.com.au. Information published on the Company's website includes charters (for the Board and its sub-committees), the Company's code of conduct and other policies and procedures relating to the Board and its responsibilities.

The Company's corporate governance practices are structured with reference to the ASX Principles and Recommendations as follows:

Principle 1	Lay solid foundations for management and oversight;
Principle 2	Structure the Board to add value;
Principle 3	Promote ethical and responsible decision-making;
Principle 4	Safeguard integrity in financial reporting;
Principle 5	Make timely and balanced disclosure;
Principle 6	Respect the rights of shareholders;
Principle 7	Recognise and manage risk; and
Principle 8	Remunerate fairly and responsibly.

Compliance with Best Practice Recommendations

Principle 1: Lay solid foundations for management and oversight

Recommendations:

1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

1.2 Companies should disclose the process for evaluating the performance of senior executives.

1.3 Companies should provide the information indicated in the Guide to Reporting on Principle 1.

The Chief Executive Officer is responsible to the Board for the day-to-day management of the Company and its subsidiaries. The Board is responsible for the overall performance of the Company and accordingly takes accountability for monitoring the Company's business and affairs and setting its strategic direction, establishing policies and overseeing the Company's financial position.

The Board has a charter which establishes the relationship between the Board and management and describes their respective functions and responsibilities. The powers reserved for the Board include:

(a) Oversight of the Company and the Company's group members' control and accountability systems;

(b) Appointment and, where appropriate, removal of the Chief Executive Officer of the Company;

(c) Appointment and, where appropriate, removal of the Chief Financial Officer and the Company Secretary;

(d) Input into and final approval of management's development of corporate strategy and performance objectives, reserves and financial plans;

(e) Reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance;

Compliance with Best Practice Recommendations - continued

(f) Monitoring senior management's performance in implementing strategies, achieving objectives and observing budgets and ensuring that appropriate resources are available for these purposes;

(g) Encouraging a culture that promotes ethical and responsible decision making, compliance with regulatory responsibilities and transparency through effective and timely reporting;

(h) Keeping under review management succession plans and development activities;

(i) Reviewing procedures and practices employed in relation to health, safety and the environment and assessing their adequacy;

(j) Approving policies of Company-wide or general application;

(k) Formulating and adopting appropriate Board policies;

(l) Adopting a continuous disclosure policy and monitoring its operation;

(m) Approving the issue of any shares, options, equity instruments or other securities in the Company;

(n) Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;

(o) Monitoring the financial performance of the Company;

(p) Approving and monitoring financial and other reporting including the annual and half year Financial Reports;

(q) Approving borrowings other than in the ordinary course of business and the granting of security over, or interests in, the Company or its assets;

(r) Approving the annual budget and strategic plan;

(s) Approving any matters that might significantly impact the reputation of the Company;

(t) Approving the engagement of auditors to review and report to the Board on the Company's financial results and reporting systems, internal controls and compliance with statutory and regulatory requirements; and

(u) Assessing the appropriateness of, and monitoring compliance with, corporate governance policies and ethical standards.

A copy of the Board Charter is available from the corporate governance section of the Company's website.

In relation to Recommendation 1.2, details of the performance review process for senior executives are set out in the Remuneration Report which forms part of the Directors' Report.

Principle 2: Structure the Board to add value

Recommendations:

2.1 A majority of the Board should be independent Directors.

2.2 The Chair should be an independent Director.

2.3 The roles of the Chair and Chief Executive Officer should not be exercised by the same individual.

2.4 The Board should establish a Nomination Committee.

2.5 Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.

2.6 Companies should provide the information indicated in the Guide to Reporting on Principle 2.

Compliance with Best Practice Recommendations - continued

Board Structure

With the resignation of Mr de Dios on 20 January 2012 as Executive Director, the Board is currently composed of five Non-Executive Directors four of which are independent and no Executive Directors. The names of the Directors in office as at the date of this Report, the year of each Director's appointment and each Director's status as independent, Non-Executive or Executive Director, are set out in the Directors' Report.

The following Board changes have occurred since 1 January 2011:

- Dr. Michael Ollis was appointed as a Non-Executive Director on 1 October 2011;
- Mr Vincent Pérez resigned as a Non-Executive Director on 17 November 2011; and
- Mr Jocot de Dios, resigned as Chief Executive Officer on 20 January 2012.

Independence

All Directors are expected to bring independent views and judgment to the Board's deliberations. The Board has reviewed the position and associations of all Directors in office at the date of this Report and considers that a majority of the Directors are independent in accordance with recommendation 2.1.

In determining whether a Director is independent, the Board has considered the relationships affecting independent status described in ASX Principle 2 and other information, facts and circumstances that the Board considers relevant. The Board assesses the independence of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate.

The test of whether a relationship is material is based on the nature of the relationship and the circumstances of the Director. Materiality is considered from the perspective of the Company, the Director and the person or entity with which the Director has a relationship.

The two Directors who are not considered to be independent are:

- Mr David Whitby, Non-Executive Director; and
- Mr Jocot de Dios, Chief Executive Officer (prior to his resignation on 20 January 2012).

Mr Whitby is deemed not to be independent as a period of three (3) years has not elapsed between his cessation as Managing Director on 6 February 2008 and his commencement on the Board (Mr Whitby became Chairman and Non-Executive Director on 6 February 2008, resigning from the role of Chairman on 15 May 2009 but remaining as Non-Executive Director to date) and due to being a material consultant to the Company in 2008 following his resignation as Managing Director.

Mr de Dios was employed in an executive capacity for the 2011 year as Chief Executive Officer, and was an Executive Director prior to his resignation. Mr de Dios was therefore deemed to be non-independent.

The Board considers that Messrs Bloking, Mañalac, Edwards and Dr. Ollis are independent Directors in accordance with ASX Principle 2, and that prior to his resignation, Mr Pérez was also deemed to be independent.

In reaching this view, the Board has considered the consultancy agreements existing between Messrs Bloking, Mañalac, Edwards, Pérez and Dr. Ollis and the Company and has determined that the level of consultancy fees are neither material to the Company nor material to any of the Directors in the context of their overall income and are comparable to commercial rates available for comparable services and are therefore equivalent to consultancies entered into on an arm's length basis.

Retirement and Re-election

The Company's constitution requires that one third of the Directors except for the Chief Executive Officer retire from office at each Annual General Meeting. Directors who have been appointed by the Board during the year (as a casual vacancy or as an addition to the Board) are required to retire from office at the next Annual General Meeting.

Directors cannot hold office for a period in excess of three years or beyond the third Annual General Meeting following their appointment without submitting themselves for re-election. Retiring Directors are eligible for re-election by shareholders.

Board support for Directors retiring by rotation and seeking re-election is not automatic and is subject to the recommendation of the Remuneration and Nomination Committee and the views of the remaining members of the Board.

Nomination and Appointment of Directors

Since 8 September 2008, recommendations of candidates for appointment as new Directors have been made by the Board's Remuneration and Nomination Committee for consideration by the Board as a whole. If it is necessary to appoint a new Director to fill a vacancy on the Board or to complement the existing Board, a wide base of potential candidates is considered with the assistance of an independent consultant. Shortlisted candidates undergo an interview process with member(s) of the Remuneration and Nomination Committee as well as an independent external consultant and are subject to due diligence reference checking.

If a candidate is recommended by the Remuneration and Nomination Committee, or a candidate is nominated by a member in accordance with the Constitution, the Board assesses the qualifications of the proposed individual in terms of the skills, diversity and other critical personal attributes that he or she may bring to the Board. The availability of the candidate to devote sufficient time to the Board is also considered.

A copy of the Procedure for Selection and Appointment of New Board Appointees is available from the corporate governance section of the Company's website.

Compliance with Best Practice Recommendations - continued

Induction

New Directors are provided with a formal letter of appointment which sets out the key terms and conditions of appointment including duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding involvement in committee work. The Director meets all members of the Board and, as appropriate, key executives. The Director is encouraged to visit the head office in Perth and operations office in Manila to become acquainted with the Company's activities.

Knowledge, Skills and Experience

All Directors are expected to maintain the skills required to discharge their obligations to the Company. Directors are provided with papers, presentations and briefings about the Company's business and operations. Directors are required to undertake the Australian Institute of Company Directors (AICD) Company Directors Course or an equivalent course and are encouraged to undertake continuing education and training relevant to the discharge of their duties to the Company. Subject to prior approval by the Board, the cost of continuing education is met by the Company.

Access to Information and Independent Advice

All Directors have unrestricted access to employees of the Company and, subject to the law, access to all Company records and information held by the Company's employees. The Board receives regular financial and operational reports from management to enable it to carry out its duties. Consistent with ASX Principle 2, each Director may, with the prior approval of the Chairman, obtain independent professional advice to assist the Director in the proper exercise of powers and discharge of duties as a Director or as a member of a Board committee. The Company will reimburse the Director for the reasonable expenses of obtaining that advice.

Conflicts of Interest

Directors are required to avoid conflicts of interest and immediately inform their fellow Directors should a conflict of interest arise. Directors are also required to advise the Company of any relevant interests that may result in a conflict.

Where a matter in which a Director has a material personal interest is being considered by the Board, that Director must not be present when the matter is being considered or vote on the matter, unless all the other Directors have passed a resolution to enable that Director to do so or the matter comes within a category of exception under the *Corporations Act 2001*.

Committees

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee as a standing committee to assist it in the discharge of its responsibilities.

The Audit and Risk Management Committee comprises Mr Andrew Edwards as Chairman, and Messrs William Bloking and Eduardo Mañalac as members. Further information in relation to the Audit and Risk Management Committee's role is contained in its charter and set out on the Company's website and under Principle 4 of this Corporate Governance Statement.

Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee with Mr William Bloking as Chairman, and Messrs David Whitby and Mr Eduardo Mañalac as members. Further details of the remuneration functions of the Remuneration and Nomination Committee are contained under Principle 8 of this Corporate Governance Statement. The charter of the Remuneration and Nomination Committee is available on the Company's website.

Board Evaluation

The Board engaged an independent consultant to undertake Board evaluations in 2009 and 2010, which included a review by the independent external consultant of each of the Directors individually, the Board Committees, as well as the Board as an integrated team through the completion of a detailed questionnaire and the conduct of personal interviews with each Director and the Company's Leadership Team. The recommendations arising from those reviews have been implemented.

In 2011 the Board undertook an internal Board evaluation process, which included a review of each of the Directors individually, the Board Committees, as well as the Board as an integrated team through the completion of a detailed questionnaire submitted to Directors, the Executives and the Assistant Company Secretary. The results of those questionnaires were collated by an HR Consultant and relayed to Mr Bloking (Chairman of the Remuneration and Nomination Committee and the Board) for consideration and further discussion with individuals where necessary. The overall results of the Board evaluation were presented to the Board.

Details of the performance review process for Executive Directors are set out in the Remuneration Report which forms part of the Directors' Report.

Principle 3: Promote ethical and responsible decision-making

Recommendations:

3.1 *Companies should establish a code of conduct and disclose the code or a summary of the code as to:*

- *the practices necessary to maintain confidence in the company's integrity;*
- *the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and*
- *the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

CORPORATE GOVERNANCE STATEMENT

Compliance with Best Practice Recommendations - continued

3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.

3.5 Companies should provide the information indicated in the Guide to Reporting on Principle 3.

Code of Conduct

The Board has adopted a Code of Conduct to guide the Directors and promote high ethical and professional standards and responsible decision-making. In particular, it addresses the Company's responsibilities to shareholders, the community and individuals, and the obligations of Directors and staff to act with integrity and honesty, engage in fair trading practices, comply with the law, avoid conflicts of interest, protect the assets of the Company, maintain the confidentiality of confidential information and comply with the Code of Conduct. The Code of Conduct also outlines the process by which breaches of the Code may be reported and dealt with. The Board's code of conduct is consistent with ASX Principle 3. A copy of the Code of Conduct is available from the corporate governance section of the Company's website.

Diversity

The Company's workforce is made up of many individuals with diverse skills, values, experiences, backgrounds and attributes including those gained on account of their gender, age, ethnicity and culture.

The Board adopted a formal Diversity Policy on 24 May 2011 and set Measurable Objectives to be reported against for the year ended 31 December 2011. The Diversity Policy seeks to provide and promote a corporate culture which embraces diversity, and aims to do so via:

- promoting the principles of merit and fairness when making decisions about recruitment, development, promotion, remuneration and flexible work arrangements;
- having an overall transparent process for the review and appointment of senior management positions and Board members;
- recruiting from a diverse pool of qualified candidates, engaging a professional search/recruitment firm, advertising vacancies widely and making efforts to identify prospective employees who have diversity attributes;
- embedding the importance of diversity within the Company's culture by encouraging and fostering a commitment to diversity by leaders at all levels whilst recognising that diversity is the responsibility of all employees;
- recognising that employees may have domestic responsibilities; and
- continuing to review and develop policies and procedures to ensure diversity within the organisation.

A copy of the Diversity Policy is available from the corporate governance section of the Company's website.

Compliance with Best Practice Recommendations - continued

The Measurable Objectives adopted for the 2011 year and an update on the Company's progress towards achieving them is set out in the table below:

Objective	Status
Appoint a member of the Leadership Team with responsibility for diversity	Completed - CEO appointed.
Update recruitment policies and Board procedures to reflect the Company's position on diversity	Completed – Board procedures and policies updated in Corporate Governance Review. Recruitment Policy created and linked to Diversity Policy.
Leadership Team member responsible for diversity to provide initial report to the Board	Completed – CEO provided an initial report to the Board.
Establish/maintain programs which aim to increase female participation and career progression (including leadership positions)	Completed - External Study Assistance and Study Leave Policies created. Training programs linked to Performance Management System.
Ensure that the Company's commitment to diversity is advised to all external agencies engaged to provide recruitment services	Completed/Ongoing – Diversity Policy advised to recruitment agencies used by the Company.
Specific Target - at least one female Board member and Leadership Team member by end 2012	Ongoing – During the 2011 year Independent Consultants were engaged to undertake a Non-Executive Director search which was initially focused on finding appropriate female candidates. In the absence of the identification of suitable female candidates, Dr. Michael Ollis was appointed as a Non-Executive Director on 1 October 2011. Joanne Williams resigned on 27 May 2011 from the role of Deputy Managing Director and the Leadership Team. Following an organisational review, this position was abolished.
Specific Target – maintain at least 50% female proportion of overall employee levels (2010: 56% of overall staff were female)	Completed - 50%

Compliance with Best Practice Recommendations - continued

The proportion of women employees in the entire organisation, in senior executive positions and on the Board is set out in the table below:

Proportion of Women

Organisation as a whole (employees)	50%
Senior Executive Positions	Nil: (Joanne Williams resigned on 27 May 2011 and was not replaced on the Leadership Team)
Board	Nil

Share Trading

The Company's share trading policy reinforces the requirements of the *Corporations Act 2001* in relation to insider trading. The policy prohibits all employees and Key Management Personnel of the Company from trading the Company's securities if they are in possession of inside information. The policy also prohibits Key Management Personnel and employees who participate in an equity-based incentive plan of the Company from entering into arrangements which would have the effect of hedging. The Company's share trading policy complies with ASX Listing Rule 12.12 and has been provided to the ASX in accordance with Listing Rule 12.9. The Company's share trading policy is provided on the Company's website.

In addition to the prohibition contained in the Company's Share Trading Policy, the Company's Remuneration Policy also prohibits Key Management Personnel (and their closely related parties) who participate in an equity-based incentive plan of the Company from entering into transactions which would have the effect of hedging.

Key Management Personnel of the Company who intend to buy or sell shares or exercise options advise the Company Secretary in advance of their intention to trade, confirm that they do not hold inside information and secure written approval from the Chairman of the Board or two Directors prior to undertaking any trade.

Key Management Personnel, employees, contractors and consultants are required to confirm any dealings in writing to the Company Secretary within two business days after the dealing.

Disclosure

Details of the Company's continuous disclosure practices and procedures are referred to under ASX Principle 5.

Principle 4: Safeguard integrity of financial reporting

Recommendations:

4.1 The Board should establish an Audit Committee.

4.2 The Audit Committee should be structured so that it:

- consists only of Non-Executive Directors;
- consists of a majority of independent Directors;
- is chaired by an independent Chairman who is not the Chairman of the Board; and
- has at least three members.

4.3 The Audit Committee should have a formal charter.

4.4 Companies should provide the information indicated in the Guide to Reporting on Principle 4.

Audit and Risk Management Committee

The Audit and Risk Management Committee monitors internal control policies and procedures designed to safeguard Company assets and maintain the integrity of financial reporting. The Audit and Risk Management Committee has the following responsibilities:

(a) Monitor the integrity of the Financial Statements of the Company, and review significant financial reporting judgments;

(b) Review the Company's internal financial control system and, unless expressly addressed by the Board itself, the Company's risk management systems;

(c) Monitor and review the effectiveness of the Company's internal audit function (if any);

(d) Monitor and review the external audit function including matters concerning appointment and remuneration, independence and non-audit services;

(e) Review and assess the corporate risk management framework for identifying, monitoring and managing significant business risks; and

(f) Perform such other functions as assigned by law, the Company's constitution or the Board.

The members of the Audit and Risk Management Committee at the date of this Report are:

- Andrew Edwards, Chairman;
- William Bloking, Member; and
- Eduardo Mañalac, Member.

Each of the members of the Audit and Risk Management Committee is considered to be independent.

Mr Edwards as a chartered accountant possesses the "financial expertise" required of at least one member of the Audit and Risk Management Committee. Messrs Mañalac and Bloking are financially experienced and are otherwise qualified to be members of the Audit and Risk Management Committee by virtue of their industry experience. Details of each Director's qualifications are included in the Directors' Report. The Company Secretary is also the Secretary of the Committee and attends the meetings.

Compliance with Best Practice Recommendations - continued

The Chief Executive Officer, the Chief Financial Officer and other members of the Leadership Team are also invited to attend the meetings as appropriate. The composition, operations and responsibilities of the Committee are consistent with ASX Principle 4.

The Committee met three times during the year ended 31 December 2011. The external auditor was in attendance at the March and August meetings with respect to the approval of the full year 2010 accounts and the half year accounts for 2011. Details of meeting attendance for Committee members are set out in the Directors' Report. The Audit and Risk Management Committee's Charter is available from the corporate governance section of the Company's website.

Independence of the external auditor

The Company's external auditor is Ernst & Young. The effectiveness, performance and independence of the external auditor are reviewed by the Audit and Risk Management Committee. The procedure for the selection, appointment and rotation of the external auditor is summarised on the Company's website.

The *Corporations Act 2001* requires the external auditor to make an annual independence declaration, addressed to the Board, declaring that the auditor has maintained its independence in accordance with the *Corporations Act 2001* and the rules of the professional accounting bodies. Ernst & Young has provided an independence declaration to the Board for the financial year ended 31 December 2011 which forms part of the Directors' Report on page 33. The Company's lead external audit partner is Robert Kirkby who was appointed in 2011.

As part of the Company's commitment to safeguarding integrity in financial reporting, the Company monitors the independence and competence of the external auditor. The provision of non-audit services by the external auditor is monitored by the Audit and Risk Management Committee. Details of fees paid or payable to Ernst & Young for non-audit services provided to the Company in the year ended 31 December 2011 are set out in the Directors' Report on page 32.

The Board has considered the nature of the non-audit services provided by the external auditor during the year and has determined that the services provided and the amount paid for those services are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* and that the auditor's independence has not been compromised.

In accordance with ASX Principle 6 and the *Corporations Act 2001*, Ernst & Young attend and are available to answer questions at the Company's Annual General Meetings.

Principle 5: Make timely and balanced disclosure

Recommendations:

5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

5.2 Companies should provide the information indicated in the Guide to Reporting on Principle 5.

Disclosure

The Company understands that timely disclosure of price sensitive information is central to the efficient operation of the securities market and has adopted a Continuous Disclosure Policy in relation to compliance with the ASX Listing Rule disclosure requirements.

The Company Secretary has responsibility for compliance oversight and coordination of the disclosure of information by the Company to the ASX and for administering the Policy. A summary of the Company's Continuous Disclosure Policy appears on the Company's website.

Principle 6: Respect the rights of shareholders

Recommendations:

6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

6.2 Companies should provide the information indicated in Guide to Reporting on Principle 6.

The Company prioritises effective communications with shareholders. All shareholders receive the Company's annual report (either in hard copy or electronically), and may also request copies of the Company's half-yearly and quarterly reports. The Company's annual general meeting is a major forum for shareholders to ask questions about the performance of the Company and provides an opportunity for shareholders to provide feedback to the Company about information provided to shareholders. The Company encourages full shareholder participation at the annual general meeting.

In addition, the Company maintains a website at www.nido.com.au on which the Company makes the following information available on a regular and up to date basis:

- Company announcements released to the ASX (for the last three years);
- Most recent information briefings to the media and analysts;
- Notices of meetings and explanatory materials;
- Financial information (for last three years); and
- Annual reports (for last three years).

Compliance with Best Practice Recommendations - continued

The Company regularly reviews its communication policy and processes to ensure that effective communication with shareholders is maintained. A summary of the Company's communication policy appears on the Company's website.

Principle 7: Recognise and manage risk

Recommendations:

7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

7.3 The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

7.4 Companies should provide the information indicated in Guide to Reporting on Principle 7.

Risk management

The Company has a program in place to identify, monitor and manage material risks associated with its business activities and has adopted and continually reviews its risk management controls. The Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Audit and Risk Management Committee provides assistance and support to the Board in its review and oversight of the adequacy and integrity of Nido's risk management framework and the effectiveness of Nido's internal control structure.

The Audit and Risk Management Committee is specifically tasked with the responsibility for:

- reviewing and assessing the corporate risk management framework for identifying, monitoring and managing significant business risks;
- reviewing the effectiveness of the system for monitoring compliance with laws, regulations, internal policies and industry standards;
- considering the effectiveness of the Company's internal control structure;
- reviewing the adequacy of Nido's insurance program; and
- receiving and referring to the Board any reports and recommendations from Nido's management on significant legal, compliance or regulatory matters that may have a material effect on the Company's risk framework and internal control structure, or its strategy, operations or reputation.

The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management through the Chief Executive Officer, including responsibility for the day to day design and implementation of the Company's risk management and internal control system.

Management reports to the Audit and Risk Management Committee and ultimately the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed.

The risk management controls adopted by the Company currently include:

- A risk register identifying the material risks facing the Company and the mitigation strategies in place to reduce or limit those risks;
- A health, safety, security and environment policy, a comprehensive HSSE Management System and associated procedures, including emergency response procedures;
- Limits for approval of capital expenditure and investments;
- Limits on authorities applicable to the execution of contracts and other instruments;
- Compliance processes in relation to legal liability, financial controls and treasury matters;
- An insurance program to address insurable risks associated with corporate and operational activities including the periodic review and audit of the insurance program to ensure its integrity;
- Strategic and business planning;
- Annual budgeting and monthly reporting systems enabling the monitoring of performance and cashflows; and
- Appropriate due diligence procedures for acquisitions, divestments and financing.

The Company's risk management policy appears on the Company's website.

Role of the Audit and Risk Management Committee

The Audit and Risk Management Committee assists the Board in relation to risk management issues. Further details in relation to the Audit and Risk Management Committee's role appear under ASX Principle 4.

Compliance with Best Practice Recommendations - continued

CEO and CFO Declaration

Consistent with ASX Principle 7 and section 295A of the *Corporations Act 2001*, the Chief Executive Officer and Chief Financial Officer provided a written statement to the Board that, in their opinion:

- The Company's Financial Report presents a true and fair view of the Company's financial condition and operating results and are in accordance with applicable accounting standards; and
- The Company's financial records for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*.

With regard to the financial records and systems of risk management and internal compliance in this written statement, the Board received assurance from the Chief Executive Officer and Chief Financial Officer that their declaration was founded on a sound system of risk management and internal controls and that the system was operating effectively in all material aspects in relation to the reporting of financial risks.

Principle 8: Remunerate fairly and responsibly

Recommendations:

8.1 The Board should establish a remuneration committee.

8.2 The remuneration committee should be structured so that it:

- *consists of a majority of independent Directors;*
- *is chaired by an independent chair; and*
- *has at least three members.*

8.3 Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.

8.4 Companies should provide the information indicated in Guide to Reporting on Principle 8.

Remuneration Committee

The Remuneration and Nomination Committee's role with respect to remuneration is to make recommendations to the Board to assist the Board in fulfilling its responsibilities with respect to the Company's remuneration, recruitment, retention and termination policies.

The members of the Remuneration and Nomination Committee at the date of this Report are:

- William Bloking, Chairman;
- David Whitby, Member; and
- Eduardo Mañalac, Member.

Messrs Bloking and Mañalac are considered to be independent. Mr Whitby is deemed not to be independent as a period of three (3) years has not elapsed between his cessation as Managing Director on 6 February 2008 and his commencement on the Board (Mr Whitby became Chairman and Non-Executive Director on 6 February 2008, resigning from the role of Chairman on 15 May 2009 but remaining as Non-Executive Director to date) and due to being a material consultant to the Company in 2008 following his resignation as Managing Director.

The composition, operation and responsibilities of the Remuneration and Nomination Committee, where they relate to remuneration matters, are consistent with ASX Principle 8.

The Committee met three times during the year ended 31 December 2011. Details of meeting attendance for Committee members are set out in the Directors' Report on page 16. The Remuneration and Nomination Committee's Charter is available on the Company's website.

Non-Executive Director Remuneration

Details of the remuneration of Non-Executive Directors are set out in the Remuneration Report which forms part of the Directors' Report.

Remuneration of Chief Executive Officer and Senior Executives

Details of the remuneration of the Chief Executive Officer and senior Executives are set out in the Remuneration Report which forms part of the Directors' Report.

Corporate Governance Documents

Please visit our website at www.nido.com.au to view our corporate governance documents including our Board Charter, Audit and Risk Management Committee Charter, Remuneration and Nomination Committee Charter, Code of Conduct, Share Trading Policy, Continuous Disclosure Policy, Diversity Policy and Policy on Shareholder Communications.

Other

Skills, Experience, Expertise and Term of Office of each Director

A profile of each Director containing the skills, experience, expertise and term of office of each Director is set out in the Directors' Report.

Existence and Terms of any Schemes for Retirement Benefits for Non-Executive Directors

There are no termination or retirement benefits for Non-Executive Directors.

DIRECTORS' DECLARATION

In accordance with a resolution of Directors of Nido Petroleum Limited, in the opinion of the Directors, I state that:

(a) the Financial Statements, Notes and additional disclosures included in the Directors' Report designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

 (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001;

(b) the Financial Statements and Notes also comply with International Financial Reporting Standards as disclosed in Note 1; and

(c) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2011.

For and on behalf of the Board

William J. Bloking

William Bloking FAICD
Chairman
20 March 2012

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

		Consolidated	
	Notes	2011 $'000	2010 $'000
Revenue from sale of crude oil		63,759	60,135
Other revenue	2(a)	161	88
Total revenue		63,920	60,223
Cost of sales	3(a)	(30,724)	(52,676)
Gross profit		33,196	7,547
Other income	2(b)	1,072	2,424
Administrative and other expenses	3(b)	(20,418)	(38,511)
Foreign currency gains/(losses)		(470)	(12,029)
Finance costs	3(c)	(2,809)	(3,739)
Fair value gain/(loss) on embedded derivative		1,775	7,965
Profit/(loss) before income tax		12,346	(36,343)
Income tax expense	4	(8,551)	(7,031)
Net profit/(loss) for the year		**3,795**	**(43,374)**
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations		(25)	3,586
Income tax relating to items of other comprehensive income/(loss)		-	-
Other comprehensive income/(loss) for the year, net of tax		(25)	3,586
Total comprehensive income/(loss) for the year		**3,770**	**(39,788)**
		Cents	**Cents**
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:			
Basic profit/(loss) per share	19	0.27	(3.92)
Diluted profit/(loss) per share	19	0.27	(3.92)

BALANCE SHEET

as at 31 December 2011

	Notes	Consolidated 2011 $'000	2010 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	5	21,561	24,216
Trade and other receivables	6	6,964	11,439
Inventories	7	1,227	5,326
Other financial assets	8	28	3,186
Total Current Assets		29,780	44,167
Non-Current Assets			
Plant and equipment	9	378	420
Oil and gas properties	10	14,003	19,220
Exploration and evaluation expenditure	11	28,187	25,761
Other financial assets	8	140	140
Total Non-Current Assets		42,708	45,541
Total Assets		72,488	89,708
LIABILITIES			
Current Liabilities			
Trade and other payables	13	4,332	18,911
Income tax payable	4	2,511	391
Provisions	14	306	4,649
Convertible Note	16	-	9,083
Total Current Liabilities		7,149	33,034
Non-Current Liabilities			
Provisions	15	5,084	5,083
Deferred tax liabilities	4	680	-
Total Non-Current Liabilities		5,764	5,083
Total Liabilities		12,913	38,117
Net Assets		59,575	51,591
EQUITY			
Contributed equity	17	153,688	149,805
Other reserves	18	13,271	12,965
Accumulated losses		(107,384)	(111,179)
Total Equity		59,575	51,591

STATEMENT OF CASHFLOWS

for the year ended 31 December 2011

	Notes	Consolidated 2011 $'000	2010 $'000
Cash Flows From Operating Activities			
Receipts from customers		62,016	63,440
Payments to suppliers and employees		(45,275)	(51,030)
Interest received		158	88
Interest paid		(933)	(2,663)
Proceeds from insurance		424	472
Income tax paid		(5,715)	(7,112)
Net cash from operating activities	24(a)	10,675	3,195
Cash Flows From Investing Activities			
Expenditure on oil and gas properties		(90)	(13,356)
Expenditure on exploration and evaluation		(8,242)	(5,756)
Proceeds from farm-out		-	5,640
Payments for plant and equipment		(154)	(131)
Payment for security deposits and bonds		-	(3,211)
Net cash used in investing activities		(8,486)	(16,814)
Cash Flows From Financing Activities			
Proceeds from issues of equity securities		-	29,135
Payments for equity issue costs		-	(1,103)
Repayment of borrowings		(5,079)	(6,377)
Net cash from/(used in) financing activities		(5,079)	21,655
Net (decrease)/increase in cash and cash equivalents		(2,890)	8,036
Effect of foreign exchange rates		235	(911)
Cash and cash equivalents at beginning of year		24,216	17,091
Cash and cash equivalents at end of year	5	21,561	24,216

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

	Contributed Equity $'000	Share Based Payment Reserve $'000	Foreign Currency Translation Reserve $'000	Accumulated Losses $'000	Total Equity $'000
Consolidated					
At 1 January 2010	117,236	7,605	1,665	(67,805)	58,701
Profit/(loss) for the year	-	-	-	(43,374)	(43,374)
Other comprehensive income/(loss)	-	-	3,586	-	3,586
Total comprehensive loss for the period, net of tax	-	-	3,586	(43,374)	(39,788)
Transactions with owners in their capacity as owners:					
Issue of share capital	29,135	-	-	-	29,135
Exercise of options	4,539	-	-	-	4,539
Cost of issue of share capital	(1,105)	-	-	-	(1,105)
Share based payments	-	109	-	-	109
	32,569	109	-	-	32,678
As at 31 December 2010	149,805	7,714	5,251	(111,179)	51,591
At 1 January 2011	149,805	7,714	5,251	(111,179)	51,591
Profit/(loss) for the year	-	-	-	3,795	3,795
Other comprehensive income/(loss)	-	-	(25)	-	(25)
Total comprehensive loss for the period, net of tax	-	-	(25)	3,795	3,770
Transactions with owners in their capacity as owners:					
Issue of share capital	3,883	-	-	-	3,883
Share based payments	-	331	-	-	331
	3,883	331	-	-	4,214
As at 31 December 2011	**153,688**	**8,045**	**5,226**	**(107,384)**	**59,575**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

This Financial Report of Nido Petroleum Limited for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the Directors on 8 March 2012.

Nido Petroleum Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

(a) Basis of Preparation

The Financial Report is a general purpose Financial Report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and authoritative pronouncements of the Australian Accounting Standards Board. The Financial Report has also been prepared on a historical cost basis, with the exception of derivative financial instruments which have been measured at fair value.

The Financial Report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

The accounting policies set out below have been consistently applied to all periods presented in the Financial Report.

The Group has adopted all new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2011, including:

- AASB 124 Related Party Disclosures (IAS 24): Simplifies the definition of a related party clarifying its intended meaning and eliminating inconsistencies from the definition. A partial exemption is also provided from the disclosure requirements for government-related entities. No impact on the Group.
- AASB 2009-12 Amendments to Australian Accounting Standards: The amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. No impact on the Group.
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project: Amends the measurement of non-controlling interest in certain circumstances, and provides further guidance and clarification on certain aspects of accounting for business combinations. No impact on the Group.
- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project: Emphasises the interaction between quantitative and qualitative AASB 7 (IFRS 7) disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity. Provides guidance to illustrate how to apply the disclosure principles in AASB 134 (IAS 34) for significant events and transactions. No impact on the Group.
- Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments (IFRIC 19): Clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of AASB 139 (IAS 39) and provides guidance on the accounting for such transactions. No impact on the Group.
- AASB 2010-5 Amendments to Australian Accounting Standards: Makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. No impact on the Group.
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues (IAS 32): Provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met. No impact on the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(b) Statement of Compliance

The Financial Report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) New Accounting Standards Not Yet Effective

Applicable Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2011.

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group
AASB 9 (IFRS 9)	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139 *Financial Instruments: Recognition and Measurement).* These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group
AASB 10 (IFRS 10 IAS 27)	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities*. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 127.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2013
AASB 11 (IFRS 11 IAS 28)	Joint Arrangements	AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly-controlled Entities – Non-monetary Contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists, may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB128.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2013
AASB 12 (IFRS 12)	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group
AASB 13 (IFRS 13)	Fair Value Measurement	AASB 13 establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2013
AASB 119 (IAS 19)	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculation the return on plan assets. It also revised the definition of short-term and long-term employee benefits. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2013
AASB 1054	Australian Additional Disclosures	This Standard is a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard with AASB 2011-1 relocates all Australian specific disclosures from other standards and revises disclosures in the following areas: (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for Financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees (e) Imputation credits	1 July 2011	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2012

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (IFRS 1, 3, 4, 5, 7 IAS 1, 2, 8, 12, 18, 21, 27, 28, 31, 32, 36, 39, IFRIC 10, 11)	These amendments arise from the issuance of AASB 9 *Financial Instruments* that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. This Standard shall be applied when AASB 9 is applied.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2013
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (IFRS 1 & IFRS 7)	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2012
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124] (IAS 24)	This Standard makes amendments to remove individual key management personnel disclosure requirements from AASB 124.	1 July 2013	Reduced disclosure of KMP information.	1 January 2014
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 101] (IAS 1)	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments).	1 July 2012	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(d) Basis of Consolidation

The consolidated Financial Statements comprise the Financial Statements of Nido Petroleum Limited and its subsidiaries as at 31 December each year (the Group or Consolidated Entity).

The Financial Statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is a loss of control of a subsidiary, the consolidated Financial Statements include the results of the part of the reporting period during which Nido Petroleum Limited has had control.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

(e) Significant Accounting Judgments, Estimates and Assumptions

Significant accounting judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Statements.

(i) Exploration and evaluation assets and oil and gas properties

The Group's accounting policy for exploration and evaluation expenditure and oil and gas properties is set out at Note 1(m) and Note 1(l) respectively. The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, it is concluded that the expenditures are unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off through profit or loss.

(ii) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences where management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set-off current income tax assets against current income tax liabilities and deferred income taxes relate to the same taxable entity and the same taxation authority.

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) Impairment of assets

In determining the recoverable amount of assets, estimations are made regarding the present value of future cash flows using asset-specific discount rates and a "value in use" discounting cash flow methodology. Additional disclosures are provided about the discount rate and any other significant assumptions in the Notes. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs.

(ii) Restoration obligations

Where a restoration obligation exists, the Group estimates the future removal costs of offshore oil and gas platforms, production facilities, wells and pipelines at the time of installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgmental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability specific discount rates to determine the present value of these cash flows. For more detail regarding the policy in respect of the provision for restoration refer to Note 1(q).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(iii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined using a Black Scholes model, and the fair value of performance rights is determined using a Monte Carlo simulation model.

(iv) Estimates of reserves quantities

The estimated quantities of Proved plus Probable hydrocarbon reserves reported by the Company are integral to the calculation of depletion and depreciation expense and to assessment of possible impairment of assets. Estimate reserve quantities are based upon interpretation of geological and geo-physical models and assessments of technical feasibility and commercial viability of producing the reserves. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations. Reserves estimates are prepared in accordance with the Company's policies and procedures for reserve estimation which conform to guidelines prepared by the Society of Petroleum Engineers.

(v) Valuation of embedded derivative

The Group issued a Convertible Note on 1 September 2006 which contains a holder call option embedded derivative. The fair value of the call option embedded derivative in the Convertible Note was determined using the Black Scholes model taking into account the terms and conditions of the option.

(f) Foreign Currency Translation

Both the functional and presentation currency of Nido Petroleum Limited and its Australian subsidiaries is Australian dollars, while for the subsidiaries with operations overseas, namely Nido Petroleum Philippines Pty Ltd, it is United States dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted at the rate of exchange prevailing at the Balance Sheet date.

As at the reporting date the assets and liabilities of the subsidiaries operating overseas are translated into the presentation currency of Nido Petroleum Limited at the rate of exchange prevailing at the Balance Sheet date and the items of income or expenditure are translated at the average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(g) Interests in Joint Ventures

Interests in jointly controlled assets are reported in the Financial Statements by including the consolidated entity's share of assets employed in the Joint Ventures, the share of liabilities incurred in relation to the Joint Ventures and the share of any expenses and revenues in relation to the Joint Ventures in their respective categories.

(h) Cash and Cash Equivalents

Cash and short-term deposits in the Balance Sheet comprise cash at bank and in hand, short-term deposits with an original maturity of three months or less and money market investments readily convertible to cash within two working days.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(i) Trade and Other Receivables

Trade receivables are carried at the amounts due. Specific allowance is made for any amounts when collection is considered doubtful. Bad debts are written off when identified.

Receivables from related parties are recognised and carried at amortised cost.

Collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of impairment loss is the receivable carrying amount compared to the present value of estimated cash flow, discounted at the original effective interest rate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(j) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined as follows:

(i) Materials, which include drilling and maintenance stocks, are valued at cost; and

(ii) Petroleum products, comprising extracted crude oil stored in FPSO tanks, are valued at cost.

Inventories and material stocks are accounted for on a FIFO (first in, first out) basis.

(k) Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation of plant and equipment is calculated on a straight line basis over the expected useful life to estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Plant and Equipment 2 – 3 years

Disposal

Any item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

(l) Oil and Gas Properties

Assets in Development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated the field enters its development phase. The costs of oil and gas assets are transferred from exploration and evaluation expenditure and reclassified into development phase and include past exploration and evaluation costs, development drilling and other subsurface expenditures, surface plant and equipment, and any associated land and buildings.

Producing assets

The costs of oil and gas assets in production are separately accounted for as tangible assets, and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings.

Depletion charges are calculated using a unit of production method which will amortise the cost of carried forward exploration, evaluation and development expenditure over the life of the estimated Proved plus Probable reserves (2P), in a cash generating unit.

Provisions for future restoration are made where there is a present obligation as a result of development and are capitalised as a component of the cost of those activities. The provision for restoration policy is discussed in full at Note 1(q).

(m) Exploration and Evaluation Expenditure

Deferred Expenditure

Costs related to the acquisition of properties that contain resources are allocated separately to specific areas of interest. These costs are capitalised until the viability of the area of interest is determined.

Exploration and evaluation expenditure is stated at cost and is accumulated in respect of each identifiable area of interest.

Such costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area of interest (or alternatively by its sale); or where activities in the area have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off through profit or loss in the period in which the decision to abandon the area is made.

The Directors review the carrying value of each area of interest as at the balance date and any exploration expenditure which no longer satisfies the above policy is written off.

Once an area of interest enters the development phase, all capitalised acquisition, exploration and evaluation expenditures are transferred to oil and gas properties.

Farm-outs

The Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the farmee is credited against costs previously capitalised.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(n) Impairment of Non-Financial Assets

On each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

(o) Investments and Other Financial Assets

Investments and financial assets within the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and De-recognition

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred.

Available for sale investments

Available-for-sale investments are those non-derivative financial assets, principally equity securities, that are designated as available-for-sale or are not classified as any of the other categories of financial assets as set out in AASB 139 Financial Instruments Recognition & Measurement. After initial recognition available-for sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is de-recognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the Balance Sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(p) Trade and Other Payables

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognised through profit or loss net of any reimbursement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Restoration Provisions

The Group recognises any legal or constructive restoration obligation as a liability at its present value at the time a legal liability or constructive obligation exists and when a reliable estimate of the amount of the obligation can be made. The carrying amount of the long lived assets to which the obligation relates is increased by the asset retirement obligation costs and amortised over the producing life of the asset. Restoration provisions are based on the estimated cost of restoration work required at the end of the useful life of the producing fields, including removal of facilities and equipment required or intended to be removed, together with abandonment of producing wells. These estimates of the asset retirement obligations are based on current technology, legal requirements and future costs, which have been discounted to their present value. In determining the asset retirement obligations, the Company has assumed no significant changes will occur in the relevant legislation in relation to restoration of sites in the future.

Where a restoration obligation is assumed as part of the acquisition of an asset or obligation, the liability is initially measured at the present value of the future cash flows to settle the present obligation as at the acquisition date.

Over time, the liability is accreted to its present value each period based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded within finance costs. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

(r) Share Based Payment Transactions

The Group provides benefits to employees (and Directors) of the Group in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employee becomes fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

(i) The grant date fair value of the award;

(ii) The extent to which the vesting period has expired; and

(iii) The number of awards that, in the opinion of the Directors of the Group, will ultimately vest taking into account such factors as the likelihood of non-market performance conditions being met.

This opinion is formed based on the best available information at balance date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. The dilutive effect, if any, of outstanding awards is reflected as additional share dilution in the computation of earnings per share.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Equity settled awards granted by the Parent to employees of Subsidiaries are recognised in the Parent's separate Financial Statements. The expense recognised by the Group is the total expense associated with such award.

Options

There are currently two Employee Share Option Plans (ESOP) providing these benefits to employees, the first (2005 ESOP) being applicable to option grants prior to 7 December 2007, and the second being applicable to option grants on and from 7 December 2007 (2007 ESOP). In addition to the ESOP, options have been issued to Directors with terms and conditions which vary from the ESOP.

The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black Scholes model.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Performance Rights

Performance rights are issued under the 2010 Employee Performance Rights Plan. Subject to Shareholder approval, Directors may be issued performance rights under the same terms and conditions as the plan.

The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Monte Carlo simulation model.

Chief Operating Officer Sign on and Retention Bonus

As part of the employment contract entered into between Nido Petroleum Limited and the Chief Operating Officer, Mr Philip Byrne*, Nido will issue future grants of fully paid ordinary shares as a sign-on and retention bonus.

The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. See Note 22(b)(iii) for further information.

* Mr Byrne was appointed CEO effective from 20 January 2012.

(s) Employee Benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. These are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

A liability for long service leave is recognised and measured as the present value of the estimated future cash outflow to be made in respect of employees' services up to the reporting date. The obligation is calculated using expected future increases in wage and salary rates, experience of employee departures and periods of service. Expected future payments are discounted using the rates attached to the Commonwealth Government bonds at the reporting date which have maturity dates approximating the terms of the Group's obligations.

(iii) Defined contribution plan

Contributions to employee superannuation funds, being defined contribution plans of choice, are expensed as incurred.

(t) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(u) Revenue

Revenue is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is recognised and measured at the fair value of the consideration received or receivable, to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Sales Revenue

Sales revenue is recognised on the basis of the Group's interest in a producing field ("entitlements" method), when the physical product and associated risks and rewards of ownership pass to the purchaser, which is generally at the time of ship or truck loading, or on the product entering the pipeline. Revenue earned under a service contract ("SC") is recognised on a net entitlements basis according to the terms of the SC and the farm-in agreements.

Interest

Revenue is recognised as interest accrues using the effective interest method.

(v) Borrowing Costs

Borrowing costs are expensed in the period in which they are incurred except borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset that necessarily takes a substantial period to get ready for its intended use or sale. In this case, borrowing costs are capitalised as part of the cost of such a qualifying asset.

(w) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the Balance Sheet date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- When the taxable temporary differences are associated with investments in subsidiaries, associates and interests in Joint Ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses, can be utilised except:

- When the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- When the deductible temporary differences are associated with investments in subsidiaries, associates and interests in Joint Ventures, in which case deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amounts of deferred income tax assets are reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance Sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Unrecognised deferred income tax assets are reassessed at each Balance Sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(x) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the amount of the GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of each cash flow arising from investing activities which are recoverable from or payable to the taxation authority are classed as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(y) Contributed Equity

Contributed equity is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

(z) Earnings per Share

Basic EPS is calculated as net profit or loss attributable to members, adjusted to include costs of servicing equity other than dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit or loss attributable to members, adjusted for:

(i) Costs of servicing equity (other than dividends);

(ii) The after tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses; and

(iii) Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares,

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(aa) Financial Instruments Issued by the Company

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs arising on the issue of equity instruments, net of associated tax, are recognised directly in equity as a reduction of the proceeds of the equity instrument to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Convertible Note

The Convertible Note was split into two components: a debt component and a component representing the embedded derivatives in the Convertible Note. The debt component represented the Group's liability for future interest coupon payments and the redemption amount. The embedded derivatives represented the value of the option that bond holders have to convert into ordinary shares in the Company.

The debt component of the Convertible Note was measured at amortised cost and therefore increases as the present value of the interest coupon payments and redemption amount increases, with a corresponding charge to finance cost. The debt component decreased by the cash interest coupon payments made. The embedded derivative was measured at fair value at each Balance Sheet date, and the change in the fair value recognised in the income statement.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the Balance Sheet classification of the related debt or equity instrument or component parts of compound instruments.

(bb) Non-current Assets and Disposal Groups Held for Sale and Discontinued Operations

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

(cc) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- nature of the products and services;
- nature of the production processes;
- type or class of customer for the products and services;
- methods used to distribute the products or provide the services; and, if applicable;
- nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately.

However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the Financial Statements.

	Consolidated 2011 $'000	Consolidated 2010 $'000

2. REVENUES

	2011 $'000	2010 $'000
(a) Other Revenue		
Interest received – other parties	161	88
Total Other Revenue	161	88
(b) Other Income		
Net gain on farm-out	-	1,915
Insurance proceeds	1,013	472
Gain on disposal of assets	6	-
Other	53	37
Total Other Income	1,072	2,424

3. EXPENSES

	2011 $'000	2010 $'000
(a) Cost of Sales		
Amortisation of oil and gas properties	5,266	8,624
Other production costs net of inventory movement	25,458	44,052
Total cost of sales	30,724	52,676

Other production costs expense includes SC14C1 Galoc oil field payments for the FPSO of $10,313,000 (2010: $9,700,000). It is impracticable to split non-lease components from the operating lease payments.

Other production costs for SC 54A Tindalo oil field totalled $2,812,000 (2010: $1,774,000) and relate to expenditure associated with production activities which occurred prior to the commencement of the abandonment of the field.

	2011 $'000	2010 $'000
(b) Administrative and Other Expenses		
(i) Administrative expenses		
Employee benefits		
Wages and salaries	5,181	4,717
Defined contribution superannuation expense	345	383
Share based payments expense	331	109
Other employee benefits	314	384
Total employee benefits	6,171	5,593
Office and other expenses		
Office and other expenses	3,368	2,262
Depreciation, amortisation and impairment expenses		
Depreciation of plant and equipment	226	344
Amortisation of oil and gas properties	5,266	8,624
Impairment write-down of oil and gas properties (Note 10)	-	29,722
Impairment write-down of exploration assets (Note 11) [1]	6,993	-
Total Depreciation, amortisation and impairment	12,485	38,690
Less: amortisation included in cost of sale	(5,266)	(8,624)
Total Depreciation, amortisation and impairment included in administrative expenses	7,219	30,066
Lease payments		
Operating lease rental	483	496
Total Administrative Expenses	17,241	38,417

[1] Impairment of exploration and evaluation expenditure assets relate to Nido's share of SC 54B Gindara-1 well drilling and associated costs. The expenditure was impaired due to the well being deemed non-commercial.

3. EXPENSES - CONTINUED

	Consolidated 2011 $'000	Consolidated 2010 $'000
(ii) Other		
Loss on disposal of plant and equipment	-	1
Abandonment field expenditure [2]	3,029	-
Exploration and evaluation expenditure expensed	148	93
Total other	3,177	94
Total Administrative and Other Expenses	20,418	38,511

[2] Abandonment field expenditure relates to the abandonment of Tindalo oil field in SC 54A. This amount is in addition to the abandonment costs provided for in prior years due to additional costs incurred in the abandonment of the field not included in the estimates at 31 December 2010.

	2011 $'000	2010 $'000
(c) Finance Costs		
(i) Convertible Note finance costs		
Interest expense	2,802	3,693
(ii) Other finance costs		
Unwind of the effect of discounting on provisions	7	46
Total finance costs	2,809	3,739

4. INCOME TAX

(a) Income tax expense

The major components of income tax expense are:

	2011 $'000	2010 $'000
Current income tax		
Current income tax charge/(benefit)	8,301	6,696
Prior year under/(over) provision	930	335
Deferred income tax		
Temporary differences originating and reversing	(2,257)	(8,161)
Prior year under/(over) provision	1,499	(1,001)
Deferred tax benefit not recognised	78	9,162
Income tax expense reported in income statement	8,551	7,031

There is no income tax expense in relation to items charged or credited directly to equity.

4. INCOME TAX - CONTINUED

(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

	Consolidated 2011 $'000	Consolidated 2010 $'000
Total accounting profit/(loss) before income tax	12,346	(36,343)
At the Group's statutory income tax rate Australia 30%, Philippines 30% (2010: Australia 30%, Philippines 30%)	3,704	(10,903)
Adjustments in respect of current year income tax		
Non-deductible expenses	237	2,221
Foreign tax on revenue basis	43	23
Other assessable income	-	662
Non-assessable income	(2,785)	(927)
Prior year under/(over)-provision	2,429	(667)
Deferred tax assets not recognised	4,923	16,622
Income tax expense for the year	8,551	7,031
Aggregate income tax is attributed to:		
Continuing operations	8,551	7,031

(c) Unrecognised deferred tax assets and liabilities

	Balance Sheet 2011 $'000	Balance Sheet 2010 $'000	Profit or Loss 2011 $'000	Profit or Loss 2010 $'000
Consolidated				
(i) Deferred tax liabilities				
Convertible Note	-	1,905	1,905	(907)
Oil and gas assets	2,166	-	(2,166)	-
Set-off of deferred tax assets	(1,486)	(1,905)	(419)	907
	680	-	(680)	-
(ii) Deferred tax assets				
Provisions	131	94	(37)	(7)
Other	229	87	(141)	-
Rehabilitation	1,486	2,786	1,300	(1,146)
Exploration assets	3,511	1,414	(2,098)	-
Oil and gas assets	8,917	8,917	-	(8,917)
Revenue tax losses	23,269	19,725	1,298	(7,498)
Set-off against deferred tax liabilities	(1,486)	(1,905)	(419)	907
Unrecognised deferred tax asset	(36,057)	(31,118)	97	16,661
	-	-	-	-

The deferred tax assets not brought to account for the 2011 year will only be obtained if:

(i) Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(ii) The conditions for deductibility imposed by the tax legislation continue to be complied with; and

(iii) The companies are able to meet the continuity of ownership and/or continuity of business tests.

4. INCOME TAX - CONTINUED

(c) Unrecognised deferred tax assets and liabilities - continued

Australian revenue tax losses of $44.5 million (2010: $38.2 million) are available indefinitely for offsetting against future Australian taxable profits subject to continuing to meet relevant statutory tests.

Revenue tax losses due to operations in the Philippines of $33.1 million (2010: $23.2 million) are available indefinitely for offset against future Philippine taxable profits subject to continuing to meet relevant statutory tests.

(d) No Tax Consolidated Group

As at the reporting date, a consolidated group for tax purposes has not been formed.

5. CASH AND CASH EQUIVALENTS

	Consolidated 2011 $'000	Consolidated 2010 $'000
Cash at bank and in hand	20,948	23,432
Short term deposits	613	784
	21,561	24,216

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group and earn interest at the respective short term deposit rates.

6. RECEIVABLES

	2011 $'000	2010 $'000
Trade and Other Receivables – Current:		
Receivable from Joint Venture partner	717	5,929
Crude oil receivables	1,067	227
Deposits held by Joint Ventures	2,770	3,189
GST receivables	37	128
Farm-out receivable	-	122
Other	2,373	1,844
	6,964	11,439

Fair Value and Risk Exposures

(i) Due to the short term nature of these receivables, their carrying value approximates their fair value;
(ii) The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security;
(iii) Details regarding foreign exchange and interest rate risk exposure are disclosed in Note 30; and
(iv) Other receivables generally have repayments between 30 and 90 days.

Ageing analysis of current receivables:	Total	0-30 days	31-60 days
2011	6,964	6,927	37
2010	11,439	11,311	128

Current receivables contain amounts past due, which has been received subsequent to year end. No impairment of assets required as at 31 December 2011 (2010: Nil).

7. INVENTORIES

	2011 $'000	2010 $'000
Casing, pipe and drilling inventory	1,227	789
Oil in storage	-	4,537
Total inventories at lower of cost and net realisable value	1,227	5,326

There was no impairment of inventories during the year (2010: nil).

	Consolidated 2011 $'000	Consolidated 2010 $'000

8. OTHER FINANCIAL ASSETS

	2011 $'000	2010 $'000
Current:		
Receivables - security deposits	28	3,186
Non-Current:		
Receivables - security deposits	140	140

Fair Value and Risk Exposures

(i) The maximum exposure to credit risk is limited to the carrying amount of the security deposits, which approximates the fair value;
(ii) Details regarding foreign exchange and interest rate risk exposure are disclosed in Note 30.

9. PLANT AND EQUIPMENT

	2011 $'000	2010 $'000
Plant and equipment, at cost	2,109	1,928
Accumulated depreciation	(1,731)	(1,508)
	378	420
Reconciliation		
As at 1 January	420	651
Additions	186	129
Disposals	(1)	(1)
Depreciation expense	(226)	(344)
Currency translation differences	(1)	(15)
Net carrying value	378	420

10. OIL AND GAS PROPERTIES

	2011 $'000	2010 $'000
Production phase, at cost	66,630	66,739
Accumulated depreciation and amortisation	(21,038)	(15,772)
Accumulated impairment losses	(31,747)	(31,747)
	13,845	19,220
Development phase, at cost	158	-
	14,003	19,220
Reconciliations		
Production phase – net		
As at 1 January	19,220	29,165
Additions	-	10,191
Transfer from development phase	-	25,199
Amortisation of oil and gas properties	(5,266)	(8,624)
Impairment write-down of oil and gas properties [2]	-	(29,722)
Currency translation differences	(109)	(6,989)
Net carrying value	13,845	19,220
Development phase – net		
As at 1 January	-	15,962
Additions	158	8,765
Transfer to production phase [1]	-	(25,199)
Currency translation differences	-	472
Net carrying value	158	-

10. OIL AND GAS PROPERTIES - CONTINUED

Oil and gas properties capitalised in the production phase as at 31 December 2011 comprised only of the SC 14C1 Galoc oil field.

During 2010, the Tindalo oil field in SC 54A was developed with first production from the Extended Well Test commencing on 6 June 2010, at which point the costs capitalised in relation to the Tindalo field in the Oil & Gas – Development phase were transferred [1] to Oil and Gas Properties – Production phase. In December 2010 a decision by the Joint Venture was made to abandon the Tindalo oil field due to the field being unable to achieve economic rates of production, at which point all costs capitalised in relation to the field were fully impaired [2] and expensed through profit or loss.

1 Impairment of exploration and evaluation expenditure assets relate to Nido's share of SC 54B Gindara-1 well drilling and associated costs. The expenditure was impaired due to the well being deemed non-commercial.

2 Abandonment field expenditure relates to the abandonment of Tindalo oil field in SC 54A. This amount is in addition to the abandonment costs provided for in prior years due to additional costs incurred in the abandonment of the field not included in the estimates at 31 December 2010.

11. EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated 2011 $'000	Consolidated 2010 $'000
Exploration and evaluation expenditure, at cost	28,187	25,761
Reconciliation		
As at 1 January	25,761	26,142
Additions	9,421	4,284
Disposal of exploration assets	-	(1,148)
Impairment write-down of exploration assets	(6,993)	-
Currency translation differences	(2)	(3,517)
Net carrying value	28,187	25,761

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective oil and gas permits.

Impairment of exploration and evaluation expenditure relates to Nido's share of SC 54B Gindara-1 well drilling and associated costs. The expenditure was impaired due to the well being deemed non-commercial.

The disposal of exploration assets in the 2010 year relate to farm-outs of working interest in SC 54A. Refer to Note 27(a).

12. INFORMATION RELATING TO NIDO PETROLEUM LIMITED (PARENT ENTITY)

	2011 $'000	2010 $'000
Current assets	3,071	18,710
Non-current assets	84,795	82,685
Current liabilities	(720)	(9,849)
Non-current liabilities	(131)	-
Net assets	87,015	91,546
Contributed equity	153,688	149,805
Share based payments reserve	8,046	7,715
Accumulated losses	(74,719)	(65,974)
Total equity	87,015	91,546
Profit/(loss) of the parent entity for the year	(8,745)	165
Total comprehensive income/(loss) of the parent entity	(8,745)	165

12. INFORMATION RELATING TO NIDO PETROLEUM LIMITED (PARENT ENTITY) - CONTINUED

Commitments and Contingencies

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

	Consolidated	
	2011 $'000	2010 $'000
Within in one year	1,009	913

Amounts disclosed are remuneration commitments relating to termination payments arising from the employment agreements of Directors, Key Management Personnel and other Executives. The amounts are not recognised as liabilities and are not included in the Directors' or Key Management Personnel Remuneration.

Nido Petroleum Limited has provided a letter of undertaking dated 14 November 2006 to the Department of Energy in the Philippines to provide technical and financial support to Nido Petroleum Philippines Pty Ltd in relation to work obligations in the SC 58 Farm In Agreement executed between PNOC Exploration Corporation and Nido Petroleum Philippines Pty Ltd on 17 July 2006.

Nido Petroleum Limited has provided a parent company guarantee to the Department of Energy in respect of the obligations of Nido Production (Holding) Pty Ltd and Nido Production (Galoc) Pty Ltd under SC 14, to provide technical and financial support to these entities. Nido Petroleum Philippines Pty Ltd has also provided a letter of undertaking to the Joint Venture partners of SC 14 to guarantee the work obligations of Nido Production (Galoc) Pty Ltd under SC 14.

13. TRADE AND OTHER PAYABLES

Trade creditors	4,261	18,824
Other creditors	71	87
	4,332	18,911

Fair Value and Risk Exposures

(i) Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value;
(ii) Details regarding foreign exchange, interest rate risk exposure and liquidity risk are disclosed in Note 30; and
(iii) Trade and other payables are unsecured and usually paid within 60 days of recognition.

14. CURRENT PROVISIONS

Employee benefits	306	315
Restoration	-	4,334
	306	4,649
Movements in restoration provision		
As at 1 January	4,334	-
Arising during the year	(4,273)	4,620
Currency translation difference	(61)	(286)
Net carrying value	-	4,334

Nature and timing of the restoration provision:

In January 2011, the abandonment of the Tindalo oil field in SC 54A was completed thus the reversal of the restoration provision which the Group previously recognised in the year ended 31 December 2010. The provision of restoration related to the estimated cost of restoration work required at the end of the useful life of the Tindalo Oil Field, including removal of facilities and equipment required or intended to be removed, together with abandonment of producing wells. These estimates of restoration were subject to significant estimates and assumptions; refer Note 1(q).

15. NON-CURRENT PROVISIONS

	Consolidated 2011 $'000	Consolidated 2010 $'000
Employee benefits	131	132
Restoration	4,953	4,951
	5,084	5,083
Movements in restoration provision		
As at 1 January	4,951	5,468
Arising during the year	-	-
Unwinding and discount rate adjustment	7	152
Currency translation difference	(5)	(669)
Net carrying value	4,953	4,951

Nature and timing of the restoration provision:

The Group has recognised a provision for restoration related to the estimated cost of restoration work required at the end of the useful life of the producing fields, including removal of facilities and equipment required or intended to be removed, together with abandonment of producing wells in Service Contract 14 in particular Galoc oil field (Phase 1) in SC14 Block C-1 and Nido and Matinloc oil fields in SC14 A and SC14 B which are expected to occur between 2014 to 2016. These provisions have been created based on field operator estimates provided to Nido. These estimates are reviewed regularly to take into account any material changes to the assumptions. However actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of the decommission is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil prices, which are inherently uncertain. These estimates of restoration are subject to significant estimates and assumptions; refer Note 1(q).

16. CONVERTIBLE NOTE

	Consolidated 2011 $'000	Consolidated 2010 $'000
Current:		
Accrued interest	-	77
Derivative financial instrument	-	1,775
Financial liability measured at amortised cost	-	7,231
	-	9,083

The debt component of the Convertible Note was recorded at amortised cost. The instrument was repaid in full in June 2011. The fair value of the debt component as at 31 December 2010 was $7,717,935.

16. CONVERTIBLE NOTE - CONTINUED

(a) Nature and fair value

The Company issued an unsecured, unsubordinated Convertible Note ("Note") with a principal amount of US$22 million (A$27.8 million) and a term of five years at 8.5% interest pursuant to a private placement on 1 September 2006. The principal terms and conditions of the Note were as follows:

(i) Bond holder – Merrill Lynch International (Australia) Limited;

(ii) Maturity date – September 2011 (5 years from issue) – US$22 million principal amount if not converted. Repaid in 8 instalments in Years 4 and 5, bonds were issued in US$100,000 denominations;

(iii) Interest payable at 8.5% per annum with interest accruing but unpaid in the first 18 months and thereafter payable quarterly;

(iv) Initial conversion price was $0.26. The initial conversion price of A$0.26 was able to be reset downwards if the volume weighted average share price was below the conversion price on the reset date. The reset date occurred every six months. The reset was restricted to a maximum of 114,307,091 shares;

(v) On 1 March 2007 the conversion price was reset from A$0.26 to A$0.23 and on 1 March 2009 the conversion price was reset from A$0.23 to A$0.08 per share, with the Note convertible into a maximum of 114,307,091 shares; and

(vi) Early redemption was at the option of the Company. At any time after March 2008, the Company was able to redeem the Note if the share price was 190% above the initial conversion price. This option did not apply if Merrill Lynch elected to disapply the reset provision.

In February 2010 the Company negotiated and completed a restructuring of the Note to defer the US$2.75 million payments due on 1 March 2010 and/or 1 June 2010 with an interest rate specifically relating to the deferred principal repayments of 10.95%. All other amounts payable under the Note continued to accrue interest at 8.5%.

In September 2010 the Company further negotiated and completed a restructuring of the Note. The key amendments to the terms of the Note (as amended by the first restructure) were as follows:

(i) The repayments due in September and December 2010 were reduced to US$3.0 million (originally US$5.5 million for each payment);

(ii) The quarterly repayments in 2011 were restructured as follows: March 2011 US$3.5 million (originally US$2.75 million), June 2011 US$2.0 million (originally US$2.75 million) and September 2011 the balance due net after any further conversions made; and

(iii) Interest rate specifically relating to the deferred balance of principal repayments was increased to 10.95%. All other amounts payable under the Note continued to accrue interest at 8.5%.

In May 2011 the Company further restructured the Note. The key amendments to the terms of the Note (as amended by the first and second restructures) were as follows:

(i) The June 2011 quarterly repayment was restructured to US$1.09 million, with the balance due in September 2011 net of any further conversions made; and

(ii) Interest rate specifically relating to the deferred principal repayments was increased to 10.95%. All other amounts payable under the Note continued to accrue interest at 8.5%.

Finally, by way of a further and final amendment to the terms of the Note, the Company agreed to pay out the outstanding debt under the Note in June 2011.

Merrill Lynch also made the following conversions during 2011:

1) US$1.04 million on 28 January 2011 resulting in the issuance of 12,997,600 ordinary shares;
2) US$1.64 million on 22 February 2011 resulting in the issuance of 20,194,198 ordinary shares; and
3) US$1.30 million on 27 May 2011 resulting in the issuance of 15,341,032 ordinary shares.

The impact of the conversions resulted in a total of 48,532,830 shares being issued in 2011 with the conversion proceeds totalling US$3.98 million (A$3.88 million) being applied directly against the outstanding debt at the time of the relevant conversions.

The remaining bonds convertible into a maximum of 9,038,714 ordinary shares were surrendered as a result of the final payment of the outstanding debt made in June 2011.

16. CONVERTIBLE NOTE - CONTINUED

The Note was classified into two components: a debt component (a contractual arrangement to deliver cash) and an embedded derivative call option component (a call option granting the holder the right, for a specified period of time, to convert it into a number of ordinary shares of Nido, based on the outstanding balance at date of conversion).

The carrying value of the embedded derivative was carried at its fair value. The value of the embedded derivative was determined using a Black Scholes option pricing model taking into account factors such as share price volatility, expected life, exercise price and current share price. The assumptions used were as follows:

	2011	2010
Dividend yield (%)	-	-
Expected volatility (%)	-	70%
Risk-free interest rate (%)	-	4.85%
Expected life of Note (years)	-	0.7 years
Note exercise price ($)	-	0.08
Share price at year end ($)	-	0.115

Over the term of the Note, the call option was fair valued at each balance date and the movement in fair value recorded through the profit and loss.

Over the term of the Note, the carrying value of the debt component was accreted using the effective interest rate method. This accretion and exchange rate differences between the US dollar and the Australian dollar were charged or credited to the profit and loss. The fair value of the financial liability at amortised cost approximated its carrying value.

(b) Risk exposures

Details regarding foreign exchange, interest rate risk exposure and liquidity risk are disclosed in Note 30.

17. CONTRIBUTED EQUITY

	Consolidated 2011 $'000	Consolidated 2010 $'000
Issued and fully paid ordinary shares	153,688	149,805

The Company's shares have no par value and there is no limit to the amount of authorised capital. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(a) Movement of shares on issue

	2011		2010	
	Number of Shares	$'000	Number of Shares	$'000
Beginning of the year	1,340,630,321	149,805	1,050,814,774	117,236
Issued during the year:				
• conversion of bonds under Convertible Note (Note 16)	48,532,830	3,883	56,735,547	4,539
• issues of new shares (i)	-	-	233,080,000	29,135
• exercise of options and performance rights(ii)	-	-	-	-
• less transaction costs	-	-	-	(1,105)
End of the year	1,389,163,151	153,688	1,340,630,321	149,805

(i) The Company conducted no placement during the year ended 31 December 2011. On 4 November 2010, Nido completed a placement of 159,000,000 shares at 12.5 cents each. A Share purchase plan was completed on 8 December 2010 with the issue of 74,080,000 shares.

(ii) There were no unlisted options or performance rights exercised for the period ended 31 December 2011 (2010: none).

17. CONTRIBUTED EQUITY - CONTINUED

(b) Options and performance rights on issue

As at 31 December 2011 there were nil options and 14,032,553 performance rights on issue (2010: 16,750,000 options and 7,027,738 performance rights). Refer to Note 22 for further details including information on the COO Sign On and Retention Bonus share entitlement.

(c) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management may in the future adjust the capital structure to take advantage of favourable costs of capital and issue further shares in the market. Management has no current plans to adjust the capital structure. There are no plans to distribute dividends in the next year.

The Group is not subject to any externally imposed capital requirements.

The gearing ratios based on operations at 31 December 2011 and 2010 were as follows:

	Consolidated	
	2011 $'000	2010 $'000
Total payables and borrowings*	4,332	26,219
Less cash and cash equivalents	(21,561)	(24,216)
Net debt	-	2,003
Total equity	59,575	51,591
Total capital	59,575	53,594
Gearing ratio **	-	4%

* Includes interest bearing loans and borrowings and trade and other payables. Trade and other payables for the group as at 31 December 2011 is $4,332,000 (2010: $18,911,000).

** Gearing excluding trade and other payables for the group is nil (2010: (49)%).

	Consolidated	
	2011 $'000	2010 $'000

18. RESERVES

Share-based payment reserve	8,045	7,714
Foreign currency translation reserve	5,226	5,251
	13,271	12,965

Nature and purpose of reserves:

Share-based payment reserve

The share-based payment reserve is used to record the value of share based payments provided to employees, including Key Management Personnel, as part of their remuneration. Refer to Note 22 for further details of employee share based remuneration plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statement of foreign subsidiaries.

Movement in share-based payment reserve:		
As at 1 January	7,714	7,605
Share based payments	331	109
	8,045	7,714
Movement in foreign currency translation reserve:		
As at 1 January	5,251	1,665
Translation of foreign subsidiaries	(25)	3,586
	5,226	5,251

19. EARNINGS PER SHARE

(a) Weighted average number of shares

The following reflects the income and share data used in the calculations of basic and diluted earnings per share. Details of options are set out in Note 22.

(b) Earnings used in calculating earnings per share

Profit/(loss) attributable to ordinary equity holders of the Company used in calculating:	2011 #	2010 #
- basic profit/(loss) per share	3,795	(43,374)
- diluted profit/(loss) per share	3,795	(43,374)
Weighted average number of ordinary shares used in the calculation of the basic earnings per share.	1,378,957,967	1,107,619,862
Adjustment for calculation of diluted earnings per share		
- options and performance shares	19,755,411	-
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share	1,398,713,378	1,107,619,862

In 2010, options and performance rights to employees, including key management personnel, totalling 23,777,738 and the shares to be issued for the conversion of bonds pursuant to the Convertible Note were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these Financial Statements.

(c) Information on the classification of securities

(i) Options and performance rights

Options and performance rights granted to employees (including key management personnel) as described in Note 22 are considered to be potential ordinary shares. In 2010 these were excluded in the determination of diluted earnings per share as they were considered to be anti-dilutive for that period.

(ii) Convertible Note

In 2010, the bonds pursuant to the Convertible Note as described in Note 16 were considered to be potential ordinary shares but were excluded in the determination of diluted earnings per share as they were considered to be anti-dilutive for the period presented.

20. DIVIDENDS PAID AND PROPOSED

No dividend has been paid or declared during the 2011 and 2010 financial years.

21. OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and his leadership team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the phase of operation within the oil and gas industry. Discrete financial information about each of these operating businesses is reported to the Chief Executive Officer and his leadership team on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of activity type and phase of operations, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Reportable Operating Segments Identified

For management purposes, the Group has organised its operating segments into two reportable segments as follows:

- Production & Development Assets Segment: This segment includes oil producing assets and assets and activities that are in the development phase but have not yet achieved first oil and/or gas production.
- Exploration and Evaluation Assets Segment: This segment includes assets and activities that are associated with the determination and assessment of the existence of commercial economic reserves.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated Financial Statements. However, the Group's financing (including finance costs, finance income and foreign exchange movements) are managed on a group basis and are not allocated to operating segments.

Accounting Policies

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 1 to the accounts.

Income tax expense is allocated to the appropriate segments based on the taxable profits generated by each segment.

There have been no inter-segment transactions.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

The following items are not allocated to segments as they are not considered part of core operations of any segment and are managed on a Group basis:

- Fair value gain/(loss) on embedded derivatives;
- Net gains on disposal of available for sale of assets;
- Finance costs and revenues;
- Interest revenue;
- Foreign currency gains/(losses); and
- Corporate costs.

21. OPERATING SEGMENTS - CONTINUED

The following table presents revenue and profit information for reportable segments for the years ended 31 December 2011 and 31 December 2010.

Operating Segments	Production and Development $'000	Exploration and Evaluation $'000	Total Operations $'000
Year ended 31 December 2011			
Revenue			
Revenue from sale of crude oil – external customers	63,759	-	63,759
Total segment revenue			**63,759**
Reconciliation of segment revenue to total revenue			
Other revenue			161
Total revenue			**63,920**
Result			
Total segment result	**21,455**	**(7,141)**	**14,314**
Segment result includes:			
Amortisation	(5,266)	-	(5,266)
Impairment of exploration and evaluation expenditure	-	(6,993)	(6,993)
Abandonment field expenditure	(3,029)	-	(3,029)
Income tax expense	(8,551)	-	(8,551)
Reconciliation of segment result after tax to net profit after tax			
Fair value gain/(loss) on embedded derivative			1,775
Finance costs			(2,809)
Foreign currency losses			(470)
Corporate costs			(10,248)
Other revenue and income			1,233
Net profit after tax			**3,795**
Year ended 31 December 2010			
Revenue			
Revenue from sale of crude oil – external customers	60,135	-	60,135
Total segment revenue			**60,135**
Reconciliation of segment revenue to total revenue			
Other revenue			88
Total revenue			**60,223**
Result			
Total segment result	**(29,218)**	**(93)**	**(29,311)**

21. OPERATING SEGMENTS - CONTINUED

Operating Segments	Production and Development $'000	Exploration and Evaluation $'000	Total Operations $'000
Segment result includes:			
Amortisation	(8,624)	-	(8,624)
Impairment of oil and gas properties	(29,722)	-	(29,722)
Income tax expense	(7,031)	-	(7,031)
Reconciliation of segment result after tax to net loss after tax			
Fair value gain/(loss) on embedded derivative			7,965
Finance costs			(3,739)
Net gain from farm-out			1,915
Foreign currency losses			(12,029)
Corporate costs			(8,771)
Other revenue and income			596
Net loss after tax			**(43,374)**

Major Customers and Geographical Areas

Revenue received from the sale of crude oil, which is attributable solely to the Production and Development Operating Segment, was comprised of five different buyers who each on a proportionate basis equated to greater than 10% of total sales of crude oil for the period.

Customer	2011 Revenue received from Sale of Crude Oil $'000	2010 Revenue received from Sale of Crude Oil $'000
# 1	33,752	30,329
# 2	-	7,302
# 3	16,820	6,838
# 4	8,167	6,480
# 5	2,946	6,103
Other	2,074	3,083
Total	**63,759**	**60,135**

The principal activities of the consolidated entity during the financial year, which occurred primarily in the Philippines, included:

- Exploration for oil and gas;
- Development of oil properties; and
- Production and sale of oil.

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographic locations based on the location of customers. The company does not have external revenues from external customers that are attributable to any other foreign country other than as shown.

Country	2011 Revenue received from Sale of Crude Oil $'000	2010 Revenue received from Sale of Crude Oil $'000
South Korea	53,518	49,749
Japan	-	7,302
Philippines	2,075	2,631
Thailand	8,166	453
Total Revenue	**63,759**	**60,135**

21. OPERATING SEGMENTS - CONTINUED

2011

Segment assets, liabilities and capital expenditure were as follows:

Operating Segments	Production and Development $'000	Exploration and Evaluation $'000	Total Operations $'000
Segment Operating Assets			
31 December 2011	38,146	30,617	68,763
Reconciliation of segment assets to total assets			
Unallocated other assets			3,725
Total Assets			72,488
Segment Operating Liabilities			
31 December 2011	(10,272)	(2,491)	(12,763)
Reconciliation of segment liabilities to total liabilities			
Unallocated liabilities – other			(150)
Total Liabilities			12,913
Segment Capital Expenditure			
31 December 2011	158	9,421	9,579
Reconciliation of capital expenditure to total capital expenditure			
Unallocated additions			186
Total Capital Expenditure			9,765

Assets – 2011

For the year ended 31 December 2011 operating assets for the Production and Development segment amounting to $38,146,000 consisted primarily of oil properties $14,003,000, trade and other receivables $5,629,000 and cash and cash equivalents $18,514,000.

Operating assets for the Exploration and Evaluation segment amounting to $30,617,000 consisted primarily of exploration and evaluation assets $28,187,000, trade and other receivables $1,203,000 and long lead item inventory $1,227,000.

Unallocated other assets amounting to $3,725,000 consisted primarily of cash and cash equivalents $3,046,000 and plant and equipment $378,000, trade and other receivables $161,000 and other non-current financial assets $140,000.

The percentage of the location of non-current assets other than financial instruments for the year ended 31 December 2011 is 99% within the Philippines and 1% within Australia.

21. OPERATING SEGMENTS - CONTINUED

2010

Segment assets, liabilities and capital expenditure were as follows:

Operating Segments	Production and Development $'000	Exploration and Evaluation $'000	Total Operations $'000
Segment Operating Assets			
31 December 2010	41,871	26,550	68,421
Reconciliation of segment assets to total assets			
Unallocated other assets			21,287
Total Assets			89,708
Segment Operating Liabilities			
31 December 2010	24,639	215	24,854
Reconciliation of segment liabilities to total liabilities			
Unallocated liabilities – Convertible Note			9,083
Unallocated liabilities – other			4,180
Total Liabilities			38,117
Segment Capital Expenditure			
31 December 2010	13,553	4,284	17,837
Reconciliation of capital expenditure to total capital expenditure			
Unallocated additions			129
Total Capital Expenditure			17,966

Assets – 2010

For the year ended 31 December 2010 operating assets for the Production and Development segment amounting to $41,871,000 consisted primarily of oil properties $19,220,000, trade and other receivables $14,290,000, cash and cash equivalents $3,824,000 and crude oil inventory $4,537,000.

Operating assets for the Exploration and Evaluation segment amounting to $26,550,000 consisted primarily of exploration and evaluation assets $25,761,000 and long lead item inventory $789,000.

Unallocated other assets amounting to $21,287,000 consisted primarily of cash and cash equivalents $20,392,000 and plant and equipment $420,000, trade and other receivables $335,000 and other non-current financial assets $140,000.

The percentage of the location of non-current assets other than financial instruments for the year ended 31 December 2010 is 99% within the Philippines and 1% within Australia.

22. SHARE-BASED PAYMENTS

(a) Recognised Share Based Payments Expenses

The expenses recognised for employee services received during the year are as follows:

	Consolidated	
	2011 $'000	2010 $'000
Share based payments expensed	331	109

(b) Share-based Plans

(i) Employee Share Option Plan

The Group has granted options to staff members under two Employee Share Option Plans (ESOP) namely, the 2005 ESOP which was subsequently replaced by the 2007 ESOP that was approved by shareholders in a general meeting on 7 December 2007.

Options issued under the 2005 and 2007 ESOP vest as follows:

- 25% upon the expiration of 12 months from the issue date;
- 25% upon the expiration of 18 months from the issue date;
- 25% upon the expiration of 24 months from the issue date; and
- 25% upon the expiration of 30 months from the issue date.

Other relevant terms and conditions applicable to options granted under the 2005 and 2007 ESOP include:

(a) Options issued pursuant to the plan will be issued free of charge.

(b) The exercise price of the options shall be as the Directors in their absolute discretion determine, provided the exercise price shall not be less than the weighted average of the last sale price of the Company's shares on ASX at the close of business on each of the five business days immediately preceding the date on which the Directors resolve to grant the options.

(c) Subject to the above, the options may be exercised at any time prior to the expiration of 36 months from the issue date.

(d) The Directors may limit the total number of options which may be exercised under the plan in any year.

(e) Options with a common expiry date may have a different exercise price and exercise date.

(f) Options shall lapse upon the earlier of:

  (i) the expiry of the exercise period; and

  (ii) the expiry of 30 days after the option holder ceases to be an employee by reason of dismissal, resignation or termination of employment, office or services for any reason, except the Directors may resolve within 30 days of such dismissal, resignation or termination, that the options shall lapse on other terms they consider appropriate.

(g) Upon exercise the options will be settled in ordinary shares of Nido Petroleum Limited.

(ii) Performance Rights Plan

The Group has granted performance rights to staff members under the 2010 Employee Performance Rights Plan that was approved by shareholders on 21 May 2010.

Performance rights issued under the plan vest as follows:

- Vest on such date following the end of the performance period as the Board has determined ('exercise date'); and
- The Board shall notify the exercise date to participants as soon as practicable after the end of the performance period.

22. SHARE-BASED PAYMENTS - CONTINUED

Other relevant terms and conditions applicable to performance rights granted under the plan include:

- The number of performance rights exercisable on an exercise date will be solely determined by Nido's Performance Ranking over the Performance Period and to the extent that any performance rights do not become exercisable on an Exercise Date, those remaining Rights (in the Tranche) shall automatically lapse.
- The Performance Period will be the period commencing on the Commencement Date and ending 36 months later.
- Nido's Performance Ranking for a Performance Period is determined by reference to the Total Shareholder Return of Nido during the Performance Period as compared to the Total Shareholder Return for each company in the Peer Group of Companies. A Peer Group Company shall be excluded from the Peer Group if it is not listed on the ASX for the entire Performance Period. If the number of companies in the Peer Group of Companies falls below sixteen, the Board shall have discretion to nominate additional companies to be included in the Peer Group of Companies, provided that the number of companies in the Peer Group of Companies shall not exceed eighteen. Nido's ranking within that group of companies at the end of the relevant Performance Period determines the number of performance rights in the particular Tranche that become exercisable (if any) on the following basis:

Performance Ranking Range	Number of performance rights exercisable
Below 50th percentile	No Rights exercisable
50th percentile	50% of the Rights in the Tranche available to be exercised
51st percentile to 74th percentile	For each Performance Ranking Range percentile increase above 50%, the number of performance rights exercisable in the Tranche increases by 2% For example, if the Performance Ranking Range is at the 52nd percentile, 54% of the Rights in the Tranche are available to be exercised.
75th percentile or higher	100% of Rights in the Tranche available to be exercised

The peer group comprises the following companies: Woodside Petroleum Limited, Otto Energy Limited, Kairiki Energy Limited, AWE Limited, Horizon Oil Limited, Karoon Gas Limited, Senex Energy Limited, Nexus Energy Limited, New Zealand Oil and Gas Limited, Tap Oil Limited, Oilex Limited, Oil Search Limited, Pan Pacific Petroleum NL, Roc Oil Limited, AED Oil Limited and Santos Limited.

- Where an Employee ceases to be employed by a company within the Group (and is not immediately employed by another company within the Group) other than because of a qualifying reason (which includes total disability, or other circumstance determined by the Board), subject to the exceptions noted below, any Rights of the Employee and any Associate Performance Right Holder of the Employee relating to performance rights which have not already become exercisable will automatically lapse.

  o Where an Employee ceases to be employed by a company within the Group (and is not immediately employed by another company within the Group) for any reason after the Employee's performance rights have vested but before Shares have been allocated, Nido must allocate the number of Shares to which the Employee is entitled.

  o The Board may, in its absolute discretion, allocate Shares, or the cash equivalent, to Employees at the end of the Performance Period where, in the Board's view, there are special circumstances under which it would be unfair not to allocate Shares.

22. SHARE-BASED PAYMENTS - CONTINUED

(iii) Chief Operating Officer Sign On and Retention Bonus Share Entitlement

As part of the employment contract entered into between Nido Petroleum Limited and the Chief Operating Officer, Mr Philip Byrne*, Nido will issue future grants of fully paid ordinary shares as a sign-on and retention bonus.

The proposed future grants consist of a total of 10,000,000 fully paid ordinary shares. These shares are to be issued in six (6) equal tranches at six (6) monthly intervals commencing six (6) months after the commencement of employment on 29 December 2011. The first five tranches will be 1,666,667 ordinary Shares with the final tranche being 1,666,665 ordinary shares. The grant date of such rights to the issue of future shares is 8 October 2011 which is the date Mr Philip Byrne entered into his employment contract.

In the event of termination of Mr Byrne's employment contract by Nido (other than for cause in which case no further shares shall be issued) a maximum of 1,666,667 of any unvested shares shall be issued. In the event of termination by the employee, Nido is not obliged to issue any unvested shares.

*Mr Byrne was appointed CEO effective from 20 January 2012.

(c) Summary of options and performance rights issued to employees

(i) Options

The following table summarises the number (No.) and the weighted average exercise price (WAEP) of, and movements in, share options issued during the year to employees other than to key management personnel which have been disclosed in (e) below.

	2011 No.	2011 WAEP	2010 No.	2010 WAEP
Outstanding at the beginning of the year	4,750,000	0.47	6,750,000	0.43
Expired during the year	(4,750,000)	0.47	(2,000,000)	0.34
Outstanding at the end of the year	-	-	4,750,000	0.47
Exercisable at the end of the year	-	-	4,262,500	0.46

The outstanding balance as at 31 December 2011 is nil.

Performance Rights

The following table summarises the number (No.) and movements in performance rights issued during the year to employees other than to key management personnel which have been disclosed in (e)(ii) below.

	2011 No.	2010 No.
Outstanding at the beginning of the year	3,115,867	-
Granted during the year	5,449,463	4,116,650
Forfeited / cancelled during the year	(1,873,302)	(1,000,783)
Exercised during the year	-	-
Outstanding at the end of the year	6,692,028	3,115,867
Exercisable at the end of the year	-	-

The outstanding balance as at 31 December 2011 is represented by the following performance rights, exercisable upon meeting the performance terms and conditions:

- Issued on 28 March 2011 were 4,420,468 performance rights with no exercise price, and an expiry date of 28 March 2014; and
- Issued on 30 April 2010 were 2,271,560 performance rights with no exercise price, and an expiry date of 30 April 2013.

22. SHARE-BASED PAYMENTS - CONTINUED

(ii) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding at the end of the year is nil (2010: <1 year) and performance rights outstanding at the end of the year is 1.9 years (2010: 2.3 years).

(iii) Weighted average fair value of options and performance rights granted

The weighted average fair value for the share options outstanding at the end of the year is nil (2010: $0.10). The weighted average fair value for the performance rights outstanding at the end of the year is $0.10 (2010: $0.122).

(iv) Range of exercise prices

The range of exercise prices for options outstanding at the end of the year was nil (2010: $0.40-$0.55). The performance rights have no exercise price.

(v) Valuation models

Options

No options were granted in 2011 or 2010.

Performance Rights

The fair value of the performance rights is estimated at the date of grant using a Monte Carlo simulation model. The following table gives the assumptions made in determining the fair value of the performance rights granted in the year.

2011

Grant date	28/3/2011
Dividend yield (%)	-
Expected volatility (%)	60-80%
Risk-free interest rate (%)	5.05%
Expected life of rights (years)	3
Exercise price ($)	-
Share price at grant date ($)	0.105

The risk free rate is the yield on Australian Government Bonds with a 3 year life which is the effective life of the performance rights at the assumed grant date.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

2010

Grant date	30/4/2010
Dividend yield (%)	-
Expected volatility (%)	50-70%
Risk-free interest rate (%)	5.28%
Expected life of rights (years)	3
Exercise price ($)	-
Share price at grant date ($)	0.155

The risk free rate is the yield on Australian Government Bonds with a 3 year life which is the effective life of the performance rights at the assumed grant date.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

22. SHARE-BASED PAYMENTS - CONTINUED

(d) Directors, Executives and Consultants' options and performance rights

In addition to the options and performance rights disclosed in (b) above, the Company has issued options and performance rights to Directors, Executives and consultants from time to time. The terms and conditions vary.

Vesting conditions for the performance rights granted during the year to Directors and Executives are the same as disclosed in (b) above.

As noted in (b)(iii) as part of the employment contract entered into between Nido Petroleum Limited and the Chief Operating Officer, Mr Philip Byrne on 29 December 2011, Nido is to issue future grants of fully paid ordinary shares as a sign-on and retention bonus.

The fair value of these shares has been determined based on market prices prevailing on 8 October 2011 (the grant date). The full fair value of the shares is $450,000 being 10,000,000 at 4.5c per share at grant date. Note an amount of $66,068 share based payments expense has been recognised for the year ended 31 December 2011 in accordance with Accounting Standard AASB 2 "Share Based Payments" which mostly relates to the first tranche of shares to be issued six months after the commencement date of 29 December 2011.

(e) Summary of options and performance rights issued to Directors, Executives and Consultants

(i) Options

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options issued.

Directors, Executives and Consultants

	2011 No.	2011 WAEP	2010 No.	2010 WAEP
Outstanding at the beginning of the year	12,000,000	0.41	19,800,000	0.39
Granted during the year	-	-	-	-
Cancelled during the year	-	-	(2,500,000)	0.40
Exercised during the year	-	-	-	-
Expired during the year	(12,000,000)	0.41	(5,300,000)	0.33
Outstanding at the end of the year	-	-	12,000,000	0.41
Exercisable at the end of the year	-	-	12,000,000	0.41

The outstanding balance as at 31 December 2011 is nil. No options were issued in 2011 or 2010.

(ii) Performance Rights

The following table illustrates the number (No.) of performance rights issued.

Directors, Executives and Consultants	2011 No.	2010 No.
Outstanding at the beginning of the year	3,911,871	-
Granted during the year	5,246,476	3,911,871
Forfeited / cancelled during the year*	(4,212,404)	-
Exercised during the year	-	-
Outstanding at the end of the year	4,945,943	3,911,871
Exercisable at the end of the year	-	-

* Please note that this includes performance rights of the CEO that are for the purposes of this table regarded as having been forfeited as at the date of resignation (19 October 2011). The CEO ceased employment with the Company on 20 January 2012.

22. SHARE-BASED PAYMENTS - CONTINUED

The outstanding balance as at 31 December 2011 is represented by the following performance rights, exercisable upon meeting the performance terms and conditions:

- Issued on 28 March 2011 were 2,870,339 performance rights with no exercise price, and an expiry date of 28 March 2014; and
- Issued on 30 April 2010 were 2,075,604 performance rights with no exercise price, and an expiry date of 30 April 2013.

(iii) Summary of weighted average remaining contract life of options and performance rights issued to Directors, Executives and Consultants

The weighted average remaining contractual life for the share options outstanding at the end of the year is nil (2010: <1 year) and performance rights outstanding at the end of the year is 1.9 years (2010: 2.3 years).

(iv) Weighted average fair value of options and performance rights granted to Directors, Executives and Consultants

The weighted average fair value of options outstanding at the end of the year was nil (2010: $0.21). The weighted average fair value for the performance rights outstanding at the end of the year is $0.10 (2010: $0.12).

(v) Range of exercise price of options issued to Directors, Executives and Consultants

The range of exercise price for options outstanding at the end of the year was nil (2010: $0.35-$0.50). The performance rights have no exercise price.

(vi) Valuation models of options and performance rights issued to Directors and Executives

Options

No options were granted in 2011 or 2010.

Performance Rights

The fair value of the performance rights is estimated at the date of grant using a Monte Carlo simulation model. The following table gives the assumptions made in determining the fair value of the performance rights granted in the year.

2011

Grant date	28/3/2011	1/6/2011
Dividend yield (%)	-	-
Expected volatility (%)	60-80%	60-80%
Risk-free interest rate (%)	5.05%	4.97%
Expected life of rights (years)	3	3
Exercise price ($)	-	-
Share price at grant date ($)	0.105	0.135

The risk free rate is the yield on Australian Government Bonds with a 3 year life which is the effective life of the performance rights at the assumed grant date.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

2010

Grant date	30/4/2010	28/5/2010
Dividend yield (%)	-	-
Expected volatility (%)	50-70%	50-70%
Risk-free interest rate (%)	5.28%	4.78%
Expected life of rights (years)	3	3
Exercise price ($)	-	-
Share price at grant date ($)	0.155	0.155

The risk free rate is the yield on Australian Government Bonds with a 3 year life which is the effective life of the performance rights at the assumed grant date. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

23. AUDITOR'S REMUNERATION

	Consolidated 2011 $	Consolidated 2010 $
The auditor of Nido Petroleum Limited is Ernst & Young (Australia).		
Amounts received or due and receivable by Ernst & Young (Australia) for:		
An audit or review of the Financial Report of the entity and any other entity in the consolidated entity	116,055	108,768
Other services in relation to the entity and any other entity in the consolidated entity (tax and related services)	38,800	64,490
	154,855	173,258
Amounts received as due and receivable by related practices of Ernst & Young (Australia) for:		
Audit services	-	-
Tax and related services	-	-
	-	-
	154,855	173,258

24. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from ordinary activities:

	2011 $	2010 $
Profit/(loss) from ordinary activities after income tax	3,795	(43,374)
Adjustments for:		
Depreciation of plant and equipment	226	344
Amortisation of oil and gas properties	5,266	8,624
Unwind of the effect of discounting on provisions	7	46
Borrowing costs	-	61
Accretion expense	1,683	1,013
Fair value movement on embedded derivative	(1,775)	(7,965)
Net exchange (gains)/losses	470	12,029
Share based payments	331	109
(Gain)/loss on disposal of plant and equipment	(6)	1
Net gain from farm-out	-	(1,915)
Exploration expenditure expensed	148	93
Impairment write-down of oil and gas properties	-	29,722
Impairment write-down of exploration assets	6,993	-
Changes in assets and liabilities:		
(Increase)/decrease in receivables	7,609	(8,333)
(Increase)/decrease in inventories	4,576	(3,736)
(Increase)/decrease in other financial assets	3,135	12
Increase/(decrease) in payables	(19,788)	16,410
Increase/(decrease) in provisions	(1,995)	54
Net cash from/(used in) operating activities	10,675	3,195

(b) Non-cash financing and investing activities:

	2011 $	2010 $
Proceeds from issues of equity securities from conversion of bonds	3,883	4,538
Repayment of borrowings	(3,883)	(4,538)

During the year ended 31 December 2011, the Company reduced underlying debt outstanding to the Merrill Lynch Convertible Note by US$3.98 million (2010: US$4.0 million) from the conversion of bonds resulting in the issuance of 48,532,830 ordinary shares (2010: 56,735,547 ordinary shares). No cash was directly received or paid by the Company.

25. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Compensation of Key Management Personnel

Short-term employment benefits	2,868,770	2,700,645
Post-employment benefits	211,131	260,451
Share based payment	175,635	(49,033)
	3,255,536	2,912,063

(b) Option Holdings of Key Management Personnel

2011	Balance at 1 January	Granted as remuneration	Options exercised	Cancelled / Forfeited / Expired	Change due to appointment / (resignation)	Balance at 31 Dec	Vested and Exercisable	Non Vested
Directors								
W Bloking	5,000,000	-	-	(5,000,000)	-	-	-	-
J de Dios	7,000,000	-	-	(7,000,000)	-	-	-	-
	12,000,000	-	-	(12,000,000)	-	-	-	-
2010								
Directors								
W Bloking	5,000,000	-	-	-	-	5,000,000	5,000,000	-
J de Dios	9,000,000	-	-	(2,000,000)	-	7,000,000	7,000,000	-
Executives								
J Pattillo	2,500,000	-	-	(2,500,000)	-	-	-	-
A Gilbert	800,000	-	-	(800,000)	-	-	-	-
A Francis	2,500,000	-	-	(2,500,000)	-	-	-	-
	19,800,000	-	-	(7,800,000)	-	12,000,000	12,000,000	-

25. KEY MANAGEMENT PERSONNEL DISCLOSURES - CONTINUED

(c) Rights Holdings of Key Management Personnel

2011	Balance at 1 January	Granted as remuneration	Performance Rights exercised	Cancelled/ Forfeited / Expired	Change due to appointment / (resignation)	Balance at 31 Dec	Vested ***	Non Vested
Directors								
J de Dios*	1,047,535	1,347,047	-	(2,394,582)	-	-	-	-
Executives								
P Byrne**	-	10,000,000	-	-	-	10,000,000	1,666,667	8,333,333
J Williams	788,732	1,029,090	-	(1,817,822)	-	-	-	-
J Pattillo	930,704	1,237,677	-	-	-	2,168,381	-	2,168,381
J Newman	492,958	765,692	-	-	-	1,258,650	-	1,258,650
A Gilbert	651,942	866,970	-	-	-	1,518,912	-	1,518,912
	3,911,871	15,246,476	-	(4,212,404)	-	14,945,943	1,666,667	13,279,276
2010								
Directors								
J de Dios	-	1,047,535	-	-	-	1,047,535	-	1,047,535
Executives								
J Williams	-	788,732	-	-	-	788,732	-	788,732
J Pattillo	-	930,704	-	-	-	930,704	-	930,704
J Newman	-	492,958	-	-	-	492,958	-	492,958
A Gilbert	-	651,942	-	-	-	651,942	-	651,942
	-	3,911,871	-	-	-	3,911,871	-	3,911,871

* Please note that the performance rights of the CEO are for the purposes of this table regarded as having been forfeited as at the date of resignation (19 October 2011). The CEO ceased employment with the Company on 20 January 2012.

** These are not performance rights, but share rights based on COO Sign-On and Retention Bonus.

*** In relation to Mr Byrne's Sign-On and Retention Bonus, for accounting purposes under AASB2 "Share Based Payments" the rights are treated as vested for the year ending 31 December 2011.

25. KEY MANAGEMENT PERSONNEL DISCLOSURES - CONTINUED

(d) Shareholdings of Key Management Personnel

2011	Balance at 1 January	On exercise of options / performance rights	Change due to appointment / (resignation)	Net change other	Balance at 31 December
Directors					
W Bloking	1,320,000	-	-	1,180,000	2,500,000
D Whitby	17,527,500	-	-	(5,633,976)	11,893,524
A Edwards	470,000	-	-	-	470,000
J de Dios	1,120,000	-	-	230,000	1,350,000
V Pérez	1,000,000	-	(1,000,000)	-	-
Executives					
A Gilbert	-	-	-	400,000	400,000
J Williams	2,770,000	-	(2,770,000)	-	-
2011 Total	24,207,500	-	(3,770,000)	(3,823,976)	16,613,524
2010					
Directors					
W Bloking	-	-	-	1,320,000	1,320,000
J de Dios	-	-	-	1,120,000	1,120,000
D Whitby	18,527,500	-	-	(1,000,000)	17,527,500
V Pérez	-	-	-	1,000,000	1,000,000
A Edwards	-	-	-	470,000	470,000
Executives					
J Williams	2,650,000	-	-	120,000	2,770,000
2010 Total	21,177,500	-	-	3,030,000	24,207,500

All equity transactions with Key Management Personnel other than those arising from the exercise of remuneration options and performance rights have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's-length.

(e) Other transactions and balances with Directors and Executives

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties:

(i) Merritt Partners Pte Ltd, an entity in which V Pérez is a Non-Executive Director, was paid $63,213 (2010: $71,300) in consultancy fees. At the end of the financial year nil was payable (2010: nil);

(ii) Vital Holdings Limited, an entity controlled by V Pérez, was paid $39,000 (2010: nil) in consultancy fees. At the end of the financial year nil was payable (2010: nil);

(iii) Australia Asia Energy Pty Ltd, an entity controlled by W Bloking, was paid $75,000 (2010: $25,000) in consultancy fees. At the end of the financial year nil was payable (2010: nil);

(iv) TransEnergy International Ltd, an entity controlled by E Mañalac, received no payment (2010: $15,000) in consultancy fees. At the end of the financial year nil was payable (2010: nil); and

(v) Park Brown International Pty Ltd, a related entity to W Bloking was paid $84,000 in fees (2010: nil). At the end of the financial year nil was payable (2010: nil).

Where applicable these amounts have been disclosed in the Remuneration Report as part of the Directors' remuneration.

26. EXPENDITURE COMMITMENTS

(a) Exploration Commitments

In order to maintain current rights of tenure to exploration permits, the consolidated entity has certain obligations to perform minimum exploration work and expend minimum amounts of money. These commitments may be varied as a result of renegotiations, relinquishments, farm-outs, sales or carrying out work in excess of the permit obligations. The following exploration expenditure requirements have not been provided for in the Financial Report and are payable:

	Consolidated	
	2011 $'000	2010 $'000
Within one year	10,894	7,083
More than one year but not later than five years	5,927	2,962
	16,821	10,045

(b) Joint Venture Commitments

All of the consolidated entity's commitments arise from its interest in Joint Ventures. The consolidated entity's share of expenditures contracted for at the balance date for which no amounts have been provided for in the Financial Statements are payable:

Within one year	4,601	2,861

(c) Non-cancellable Operating Lease Commitments

The consolidated entity has entered into non-cancellable operating leases for office premises and its Galoc operations FPSO. Commitments are as follows:

Within one year	8,932	9,581
More than one year but not later than five years	1,441	138
	10,373	9,719

(d) Remuneration Commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

Within one year	1,009	913

Amounts disclosed are remuneration commitments relating to termination payments arising from the employment agreements of employees other than Directors, Key Management Personnel and other executives. The amounts are not recognised as liabilities.

27. INTERESTS IN JOINT VENTURES

(a) Joint Venture details

The consolidated entity has the following Joint Venture interests:

Permit	Country	Principal Activity	Average Interest
SC 14 Block A	Philippines	Oil and gas exploration	22.486%
SC 14 Block B	Philippines	Oil and gas exploration	28.283%
SC 14 Block C	Philippines	Oil and gas exploration	22.879%
SC 14 Block D	Philippines	Oil and gas exploration	31.417%
SC 6B	Philippines	Oil and gas exploration	7.812%
SC 54A	Philippines	Oil and gas exploration	42.4%
SC 54B	Philippines	Oil and gas exploration	60% [1]
SC 58	Philippines	Oil and gas exploration	50% [2]
SC 63	Philippines	Oil and gas exploration	50%

[1] In October 2010, Nido Petroleum Philippines Pty Ltd and Joint Venture Partner Yilgarn Petroleum Philippines Pty Ltd entered into farm-out agreements with Shell Philippines Exploration B.V. to farm out 27% and 18% of their respective participating interests in SC 54B. The Philippine Department of Energy ('DOE') formally approved the agreement on 25 January 2011. To earn its 45% participating interest Shell Philippines Exploration B.V. funded 75% of the cost of the Gindara well up to a cap of US$24.0 million and paid US$2.5 million towards past seismic costs. Subsequently, Shell Philippines Exploration B.V. relinquished its interest in the block effective on 30 December 2011. Interests in the block are now Nido Petroleum Philippines Pty Ltd (Operator) 60% and Yilgarn Petroleum Philippines Pty Ltd 40%.

[2] Nido's participating interest in SC 58 is dependent upon the completion of its farm-in obligations under its Farm-in Agreement with PNOC – EC dated 17 July 2006. Nido's obligations include a well commitment in Sub-Phase 3.

27. INTERESTS IN JOINT VENTURES - CONTINUED

(b) Assets utilised in the Joint Venture

The following amounts represent the consolidated entity's interests in the assets employed in Joint Ventures. These amounts are included in the consolidated Financial Statements under their respective categories as follows:

	Consolidated	
	2011 $'000	2010 $'000
Current assets		
Cash and cash equivalents	8,525	3,824
Trade and other receivables	6,198	14,107
Inventories	1,227	5,326
Total current assets	15,950	23,257
Non-current assets		
Oil and gas properties	14,003	19,220
Exploration and evaluation	28,187	25,761
Total non-current assets	42,190	44,981
Total assets	58,140	68,238
Current liabilities		
Trade and other payables	3,464	17,535
Provisions	-	4,335
Income tax payable	2,511	391
Total current liabilities	5,975	22,261
Non-current liabilities		
Provisions	4,953	4,951
Deferred tax liability	680	-
Total non-current liabilities	5,633	4,951
Total liabilities	11,608	27,212
Net assets	46,532	41,026

27. INTERESTS IN JOINT VENTURES - CONTINUED

(c) Share of Joint Venture operation's profit or loss

	Consolidated 2011 $'000	Consolidated 2010 $'000
Revenue	63,759	60,135
Cost of sales	(30,724)	(52,676)
Impairment of oil and gas properties	-	(29,722)
Impairment of exploration & evaluation expenditure	(6,993)	-
Abandonment field expenditure	(3,029)	-
Profit/(loss) before tax	23,013	(22,263)
Income tax expense	(8,551)	(7,031)
Net profit/(loss)	14,462	(29,294)

(d) Commitments relating to Joint Venture

Capital expenditure commitments and contingent liabilities in respect of the Joint Venture are disclosed in Notes 26 and 29, respectively.

28. RELATED PARTY DISCLOSURE

The consolidated Financial Statements include the Financial Statements of Nido Petroleum Limited and the subsidiaries listed in the following table. The following were controlled entities during the financial year, and have been included in the consolidated Financial Statements. The financial years of all controlled entities are the same as that of the parent entity.

	Place of Incorporation and Operation	Type of Shares	% of Shares Held 2011%	% of Shares Held 2010%
Parent Entity:				
Nido Petroleum Limited	Australia			
Subsidiaries:				
Nido Petroleum Philippines Pty Ltd	Australia	Ordinary	100	100
Nido Petroleum (China) Pty Ltd	Australia	Ordinary	100	100
Nido Management Pty Ltd	Australia	Ordinary	100	100
Nido Petroleum (BVI) No. 1 Pty Ltd	British Virgin Islands	Ordinary	100	100
Nido Petroleum (BVI) No. 2 Pty Ltd	British Virgin Islands*	Ordinary	100	100
Nido Production (Galoc) Pty Ltd	British Virgin Islands**	Ordinary	100	100
Nido Production (Holding) Pty Ltd	British Virgin Islands***	Ordinary	100	100

* Control is via Nido Petroleum (BVI) No. 1 Pty Ltd
** Control is via Nido Production (Holding) Pty Ltd
*** Control is via Nido Petroleum Philippines Pty Ltd

Subsidiaries

The only transaction between the parent entity and its subsidiaries was the provision of loan funds during the financial year.

29. CONTINGENT LIABILITIES

(a) Guarantees

Nido Petroleum Limited has provided a letter of undertaking dated 14 November 2006 to the Department of Energy in the Philippines to provide technical and financial support to Nido Petroleum Philippines Pty Ltd in relation to work obligations in the SC 58 Farm In Agreement executed between PNOC Exploration Corporation and Nido Petroleum Philippines Pty Ltd on 17 July 2006.

Nido Petroleum Limited has provided a parent company guarantee to the Department of Energy in respect of the obligations of Nido Production (Holding) Pty Ltd and Nido Production (Galoc) Pty Ltd under SC 14, to provide technical and financial support to these entities. Nido Petroleum Philippines Pty Ltd has also provided a letter of undertaking to the Joint Venture partners of SC 14 to guarantee the work obligations of Nido Production (Galoc) Pty Ltd under SC 14.

Nido Petroleum Philippines Pty Ltd has entered into a performance bond with UCPB General Insurance Co., Inc in relation to its obligation under the Farm In Agreement with PNOC Exploration Corporation (PNOC-EC) for US$3.0 million which provides a guarantee and indemnity in the event of failure by Nido Petroleum Philippines Pty Ltd to issue a written notice to drill a well in relation to Sub Phase 3 of SC 58. The performance bond will expire on 1 August 2012. However, given that the notice to drill date has been extended by PNOC-EC to a date not later than 30 June 2013, Nido will be required to secure another US$3.0 million performance bond in favour of PNOC-EC to cover the period from 1 August 2012 to 30 June 2013.

(b) Employment Contracts – Change of Control

In the event of a Change of Control, employees, other than officers, who entered into employment contracts prior to 2009 have the option to terminate their employment, in which case the employee will be paid a portion of their remuneration package varying between six months and one year.

As at 31 December 2011, the total amount that would be payable was $1,008,798 (2010: $913,232).

Other than the above, as at the date of this Report there were no contingent liabilities.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short-term deposits.

The main purpose of these financial instruments is to provide working capital for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency, commodity risk and credit risk. The Board reviews and agrees on policies for managing each of these risks.

30.FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

Interest Rate Risk

At balance date the Group's exposure to market risk for changes in interest rates relates primarily to the Company's short-term cash deposits.

The Group constantly analyses its exposure to interest rates, with consideration given to potential renewal of existing positions, the mix of fixed and variable interest rates and the period to which deposits may be fixed.

At balance date, the Group had the following cash flow risks arising from financial assets exposed to variable interest rates that are not designated in cash flow hedges:

	Consolidated	
	2011	2010
	$'000	$'000
Financial Assets:		
Cash and cash equivalents	21,561	24,216
Trade and other receivables	1,486	1,685
Other financial assets	-	2,952
Net exposure	23,047	28,853

The following sensitivity analysis is based on the interest rate risk exposures in existence at the Balance Sheet date. The 0.5 % sensitivity (2010: 0.5%) is based on reasonably possible changes, over a financial year, using an observed range of historical RBA ($AUD) interest rates and movements over the last year.

At 31 December 2011, if interest rates had moved, as illustrated in the Table below, with all other variables held constant, post tax profit and equity relating to financial assets of the Group would have been affected as follows:

Judgements of reasonably possible movements:		
Post tax profit - higher / (lower)		
+ 0.5% (2010: +0.5%)	80	104
- 0.5% (2010: - 0.5%)	(80)	(104)
Equity - higher / (lower)		
+ 0.5% (2010: +0.5%)	-	-
- 0.5% (2010: - 0.5%)	-	-

The movement in profit in 2011 is lower than in 2010 due to the lower cash balance in 2011.

During the year the underlying debt of the Convertible Note due to Merrill Lynch was fully repaid and the balance is nil (2010: US$17.3 million). The table below illustrates if the interest rate applied to the fair value calculation of the derivative component of the Convertible Note had moved with all other variables held constant, post tax profit and equity of the Group would have been affected as follows:

Judgements of reasonably possible movements:		
Post tax profit - higher / (lower)		
+ 0.5% (2010: +0.5%)	-	(43)
- 0.5% (2010: - 0.5%)	-	44
Equity - higher / (lower)		
+ 0.5% (2010: +0.5%)	-	-
- 0.5% (2010: - 0.5%)	-	-

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

Foreign Currency Risk

As a result of oil and gas exploration, development and production operations in the Philippines, being denominated in USD, the Group's Balance Sheet can be affected significantly by movements in the USD/AUD exchange rates. The Company does not hedge this exposure.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

The Group manages its foreign exchange risk by constantly reviewing its exposure to commitments payable in foreign currency and ensuring that appropriate cash balances are maintained in both Philippine Peso and United States dollars, to meet current operational commitments.

The Convertible Note due to Merrill Lynch was fully repaid during the year and thus the net exposure for the year ended 31 December 2011 is nil. For the comparative year the USD Convertible Note could have been affected by movements in the USD/AUD exchange rates, and this ultimately affects the value of the Convertible Note reported in the Balance Sheet and gives rise to foreign exchange gains or losses through profit or loss.

The USD Convertible Note debt was used to meet foreign currency commitments, primarily in relation to the Galoc oil field development, which limited any cash flow volatility from foreign exchange rate changes to the cost of the development.

At 31 December 2011, the Group had the following USD/AUD exposure that is not designated in cash flow hedges:

	Consolidated	
	2011 $'000	2010 $'000
Financial Assets:		
Non Current Receivables*	109,073	106,930
Financial Liabilities:		
Convertible Note	-	7,308
Net exposure	109,073	99,622

* Non Current Receivables represents AUD denominated parent entity loans to subsidiaries where functional currency is USD

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the Balance Sheet date. The 10% sensitivity (2010: 10%) is based on reasonably possible changes, over a financial year, using an observed range of actual historical rates, for the Australian dollar to the United States dollar, for the preceding year.

At 31 December 2011, if the Australian dollar had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:		
Post tax profit - higher / (lower)		
AUD/USD +10 % (2010: +10%)	(9,916)	(9,057)
AUD/USD – 10 % (2010: -10%)	12,119	11,069
Equity - higher / (lower)		
AUD/USD + 10 % (2010: -10%)	-	664
AUD/USD – 10 % (2010: -10%)	-	(812)

The movements in 2011 profit and equity vary from 2010 due to the increase in subsidiary loans and reduction in Convertible Note loan.

Management believes the balance date risk exposures are representative of the risk exposure inherent in financial instruments.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

Commodity Price Risk

The Group is exposed to commodity price fluctuations through the sale of crude oil denominated in United States Dollars. The Group may enter into commodity crude oil price swap and option contracts to manage its commodity price risk. As at 31 December 2011, the Group had no open oil price swap and option contracts (2010: nil).

Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and other financial assets and guarantees and undertakings. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable Note.

The Group trades only with recognised, creditworthy third parties and has adopted a policy of dealing with creditworthy counterparts and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

Cash balances for the Group are held by two major financial institutions who have credit ratings of AA or greater.

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Specific concentration of credit risk exists primarily within trade debtors in respect of the sale of oil, as well as cash held by non-operator Joint Venture partners as well as receivables due from Joint Venture partners.

As at 31 December 2011, 100% (2010: 100%) of the consolidated entity's crude oil receivable was owed by Pilipinas Shell Petroleum Corporation to the Joint Venture operated by The Philodrill Corporation ("Philodrill") with respect to the purchase of oil derived from the Nido and Matinloc oil fields. Philodrill also holds cash balances due to the Group and other Joint Venture participants as at 31 December 2011 who have no history of credit default with the Group, and no impairment allowance is considered necessary.

Other than the concentration of credit risk described above, the consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the Financial Statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its cash and funding requirements.

The table below reflects all contractually fixed pay-offs for settlement, repayment and interest resulting from recognised liabilities as of 31 December 2011. Cash flows for financial assets and liabilities without fixed amount or timing are based on conditions existing at 31 December 2011.

The remaining contractual maturities of the Group's financial liabilities are:

	Consolidated	
	2011 $'000	2010 $'000
6 months or less	4,332	30,802
6-12 months	-	3,766
1-5 years	-	-
	4,332	34,568

Included within the table above for 2010 only, for 6 months or less, was an amount relating to Convertible Note derivative financial instrument of $1,775,000.

The Company has also provided guarantees and undertakings, as described in Note 29. Unless otherwise stated, value of the guarantee or undertaking cannot be reliably estimated nor can an estimate of maturity date be determined.

The Group manages its liquidity risk by monitoring on a monthly basis expected cash inflows and outflows.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

Equity Price Risk

Equity price risk arose from the Group's derivative component of the Convertible Note, as the fair value reported in the Balance Sheet was impacted by the Group's share price on the Australian Stock Exchange. In addition to this, a conversion price reset mechanism existed whereby the conversion price could be reset downwards if the volume weighted average share price was below the conversion price on the reset date. The reset date occurred every six months.

As at 31 December 2011 the Convertible Note had been fully repaid and no balance remained. The remaining bonds convertible into a maximum of 9,038,714 ordinary shares were surrendered as a result of the final payment of the underlying debt. In 2010, the conversion price was $0.08, with the outstanding bonds convertible into a maximum of 57,571,544 shares.

Over the term of the Note, the embedded derivative was fair valued at each balance date and the movement in fair value recorded through the income statement.

The table below discloses the sensitivities in relation to the impact of a share price movement on the valuation of the embedded derivative. The 5 cent sensitivity is based on reasonably possible change, over a financial year, using an observed range of actual historical share prices, for the preceding 4 years.

Judgements of reasonably possible movements:		
Post tax profit - higher / (lower)		
+ 5 cent movement	-	(2,019)
- 5 cent movement	-	1,478
Equity - higher / (lower)		
+ 5 cent movement	-	-
- 5 cent movement	-	-

The carrying value of the Convertible Note's debt component as at 31 December 2011 is nil (2010: $7,308,000), while the fair value of the embedded derivative as at 31 December 2011 is nil (2010: $1,775,000).

Fair Value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1 – the fair value is calculated using quoted prices in active markets.
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

	Year ended 31 December 2011				Year ended 31 December 2010			
	Quoted market price (Level 1)	Valuation with observable market data (Level 2)	Valuation with no observable market data (Level 3)	Total	Quoted market price (Level 1)	Valuation with observable market data (Level 2)	Valuation with no observable market data (Level 3)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated								
Financial Liabilities								
Derivative instruments								
Convertible Note	-	-	-	-	-	1,775	-	1,775
	-	-	-	-	-	1,775	-	1,775

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps, forward commodity contracts and foreign exchange contracts not traded on a recognised exchange.

The fair value of unlisted debt and equity securities, as well as other investments that do not have an active market, are based on valuation techniques using market data that is not observable. Where the impact of credit risk on the fair value of a derivative is significant, and the inputs on credit risk (e.g., CDS spreads) are not observable, the derivative would be classified as based on non observable market inputs (Level 3).

Transfer between categories

There were no transfers between Level 1 and Level 2 during the year.

31. SUBSEQUENT EVENTS

The Company has identified the following as events occurring after year end:

- Jocot de Dios, Chief Executive Officer ceased employment with the Company as at close of business on 20 January 2012.
- Philip Byrne was appointed Chief Executive Officer effective from 20 January 2012.
- Prior to year end, the Company sought agreement from the DOE and Joint Venture partner PNOC-EC, to extend Sub-Phase 3 of SC 58. The company also sought to defer the election to drill date under the Farm-in Agreement with PNOC-EC. The DOE has since approved a twelve month extension of Sub-Phase 3 (Sub-Phase 3 now expires on 12 January 2014) and PNOC-EC has agreed to defer the election to drill date to 30 June 2013.
- Nido Petroleum Philippines Pty Ltd as operator of SC 58 joint venture acquired 1,000 full-fold line kilometres of new 2D seismic over the greater Bikuda - Bulador prospect area in the northern sector of SC 58.

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Independent auditor's report to the members of Nido Petroleum Limited

Report on the Financial Report

We have audited the accompanying Financial Report of Nido Petroleum Limited, which comprises the consolidated Balance Sheet as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the Financial Report

The directors of the company are responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the Financial Report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards.*

Auditor's responsibility

Our responsibility is to express an opinion on the Financial Report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the Financial Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the Financial Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a base for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001.* We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the director's report.

RK:SS:NIDO:007

INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Opinion

In our opinion:

a. the Financial Report of Nido Petroleum Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the Financial Report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Nido Petroleum Limited for the year ended 31 December 2011, complies with Section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

R A Kirkby
Partner
Perth
20 March 2012

RK:SS:NIDO:007

ADDITIONAL SECURITIES EXCHANGE INFORMATION

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this Report is shown below. The information is current as at 12 March 2012.

1. SUBSTANTIAL SHAREHOLDERS

No Substantial Shareholders are known.

2. DISTRIBUTION OF EQUITY SECURITY HOLDERS

(a) Analysis of equity holders by size of holding

Size of Holding	Number of Shareholders	Number of Fully Paid Shares
1 – 1,000	235	45,364
1,001 – 5,000	676	2,297,000
5,001 – 10,000	832	7,050,891
10,001 – 100,000	3,685	164,855,239
100,001 and over	1,778	1,214,914,657
	7,206	1,389,163,151

(b) The number of shareholders with less than a marketable parcel is 1,345.

(c) Each ordinary share entitles the holder to one vote.

TWENTY LARGEST SHAREHOLDERS

As at 12 March 2012	Total Units	% Issued Capital
1. HSBC Custody Nominees (Australia) Limited	119,047,195	8.57
2. Citicorp Nominees Pty Limited	78,228,181	5.63
3. Escot Finance Ltd	48,400,000	3.48
4. J P Morgan Nominees Australia Limited <Cash Income A/C>	28,453,143	2.05
5. National Nominees Limited	26,358,744	1.90
6. HSBC Custody Nominees (Australia) Limited – A/C 2	24,306,376	1.75
7. Nefco Nominees Pty Ltd	20,212,556	1.46
8. Packwood Capital SA	17,000,000	1.22
9. Monex Boom Securities (HK) Ltd <Clients Account>	16,423,187	1.18
10. Daly Finance Group	14,600,000	1.05
11. W D Goodfellow	12,062,534	0.87
12. J P Morgan Nominees Australia Limited	11,541,924	0.83
13. Wales Australian Resources Pty Ltd	11,166,588	0.80
14. D R Whitby	11,000,000	0.79
15. HSBC Custody Nominees (Australia) Limited – A/C 3	10,919,125	0.79
16. Smundin Group Pty Ltd	6,533,765	0.47
17. Merrill Lynch (Australia) Nominees Pty Limited	6,486,529	0.47
18. Messara Investments Pty Ltd <Messara Family A/C>	6,450,000	0.46
19. Comsec Nominees Pty Limited	6,115,419	0.44
20. ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	5,906,403	0.43

3. UNLISTED PERFORMANCE RIGHTS

As at 12 March 2012, there were 11,588,888 unlisted performance rights outstanding. The holders do not have any voting rights in their capacity as performance right holders. As at 12 March 2012, there were a total of 22 performance right holders holding unlisted employee performance rights.

4. CHIEF OPERATING OFFICER – SIGN ON AND RETENTION BONUS SHARE ENTITLEMENT

As part of the employment contract entered into between Nido Petroleum Limited and the Chief Operating Officer, Mr Philip Byrne, Nido will issue future grants of fully paid ordinary shares as a sign-on and retention bonus.

Further information on unlisted options, performance rights and outstanding share entitlements is disclosed in Note 22(b) to the Financial Statements.

ADDITIONAL SECURITIES EXCHANGE INFORMATION

GLOSSARY OF TERMS

2005 ESOP	Employee Share Option Plan effective from 17 January 2005 until 6 December 2007
2007 ESOP	Employee Share Option Plan effective from 7 December 2007
Bbl	Barrels
Bopd	Barrels of oil per day
DOE	Department of Energy
FID	Final Investment Decision
FPSO	Floating Production Storage and Offtake vessel
GCA	Gaffney, Cline and Associates
GPC	Galoc Production Company WLL
Km	Kilometre
LTI	Long term incentive
M	Millions
MD	Measured Depth
MDT	Modular dynamic testing
Merrill Lynch	Merrill Lynch International (Australia) Limited
MMscfgd	Million standard cubic feet of gas per day
MMbbl	Million barrels
MMstb	Million stock-tank barrels
Nido	Nido Petroleum Limited
Philippines	The Republic of the Philippines
Philodrill	The Philodrill Corporation
Plan	2010 Employee Performance Rights Plan
PNOC	PNOC Exploration Corporation
Proved Reserves [1]	Those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.
Probable Reserves [1]	Those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Possible Reserves [1]	Those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
Reserves [1]	Those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by development and production status.
SC 6B	Service Contract 6B dated 19 September 1973, as amended
SC 14	Service Contract 14 dated 17 December 1975, as amended
SC 54	Service Contract 54 dated 5 August 2005, as amended

ADDITIONAL SECURITIES EXCHANGE INFORMATION

SC 54A	Service Contract 54 Block A
SC 54B	Service Contract 54 Block B
SC 58	Service Contract 58 dated 12 January 2006, as amended
SC 63	Service Contract 63 dated 24 November 2006
sq. km.	Square kilometre
stb	Stock-tank barrels
STI	short term incentive
STOIIP	Stock –tank oil initially in place
TD	Total depth
Yilgarn	Yilgarn Petroleum Philippines Pty Limited

[1] From Petroleum Resources Management System March 2007 sponsored by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, Society of Petroleum Evaluation.

Perth Office
Aquila Centre Level 3
1 Preston Street
COMO WA 6152
P +61 (0) 8 9474 0000
F +61 (0) 8 9474 0099

Manila Office
38/F Philamlife Tower
8767 Paseo de Roxas
Makati City 1226
PHILIPPINES
P +63 2 856 5910
F +63 2 856 5494

ABN 65 086 630 373

Nido Petroleum Limited

www.nido.com.au