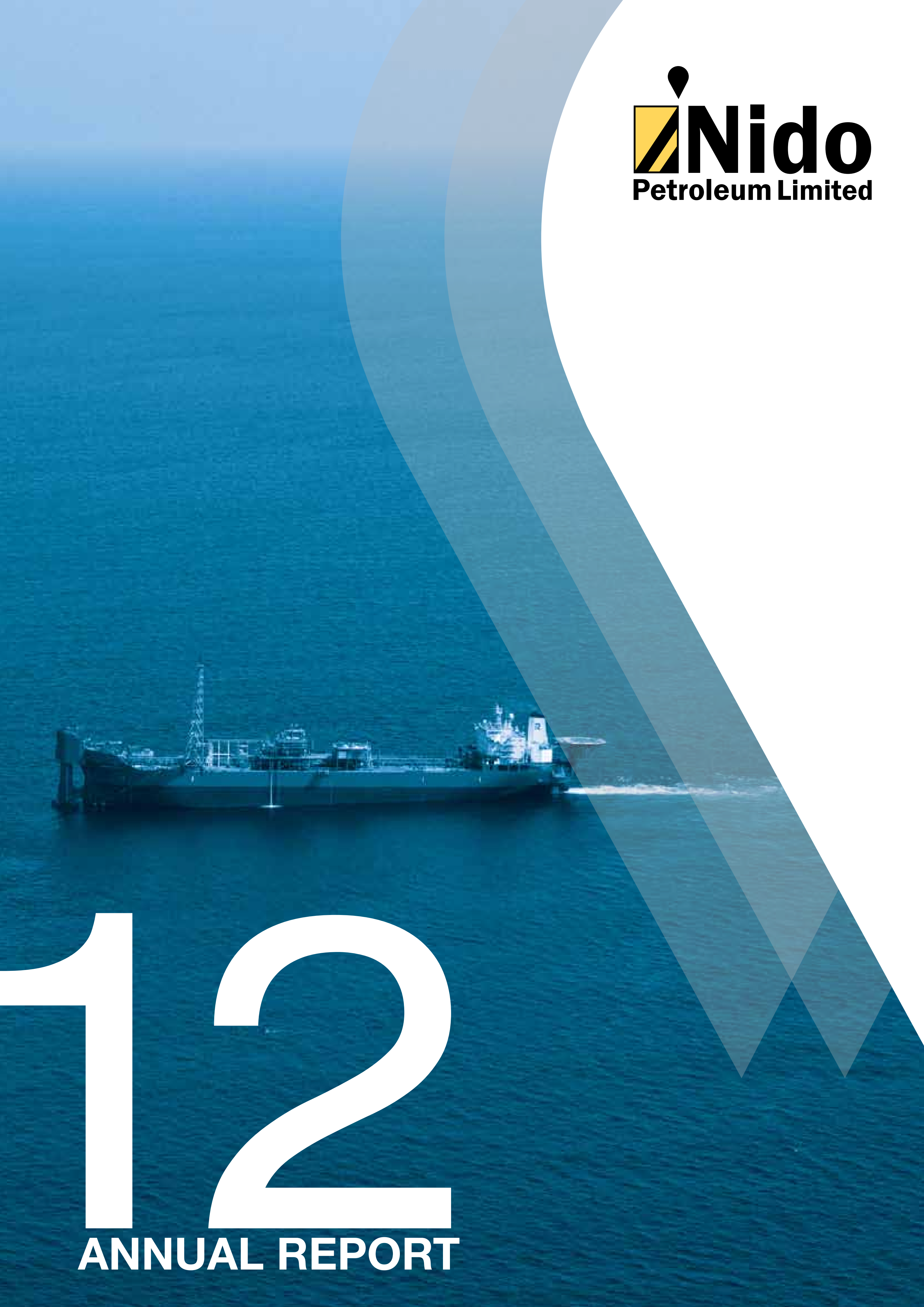
Nido Petroleum Limited



12 ANNUAL REPORT

DEVELOPMENT

FID was approved for the

Galoc Phase II

oil field development was approved by the SC 14C1 Joint Venture.

CORPORATE & FINANCIAL

Nido executed a senior secured debt facility up to a maximum of US$30M to assist with the funding of the Galoc Phase II development.

PRODUCTION

Nido's net entitlement 1P Proved Reserves in the Galoc oil field increased by 65% during the first half of 2012.

HEALTH, SAFETY, SECURITY AND ENVIRONMENT (HSSE)

Total Recordable Injury Frequency Rate (TRIFR) was

zero.

CORPORATE & FINANCIAL

Cash on hand at year end was

$18.1M.

Nido Petroleum Limited

ABN 65 086 630 373

DIRECTORS

WILLIAM BLOKING
Chairman

PHILIP BYRNE
Managing Director

EDUARDO MAÑALAC
Non-Executive Director

ANDREW EDWARDS
Non-Executive Director

MICHAEL OLLIS
Non-Executive Director

COMPANY SECRETARY

JOHN NEWMAN

SOLICITORS

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ASX CODE

Shares: NDO

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ASHLEY GILBERT
Chief Financial Officer

SHARE REGISTRY

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F +61 8 9323 2033

AUDITORS

ERNST & YOUNG

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F +61 8 9429 2436

SECURITIES EXCHANGE LISTING

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

PRODUCTION

- Production from the Galoc oil field recommenced on 2 April 2012 following a planned shutdown for the refurbishment of the FPSO 'Rubicon Intrepid' which included the installation of a bow mounted turret mooring system.
- Following recommencement of production on 2 April 2012 a total of 1.5 MMbbls (gross) (339,135 bbls net to Nido) were produced from the Galoc oil field in 2012 corresponding to an average uptime of 97.5%.
- Revenue from crude oil sales decreased by 43.0% from the previous year to $36.3 million due to the planned shutdown of the FPSO, which resulted in 4 liftings as compared to 7 in 2011.
- Nido's net entitlement 1P Proved reserves increased by 65% during the first half of 2012, with Nido's participating interest share of Galoc oil field 1P reserves at 31 December of 2.16 MMstb[1].
- The Nido and Matinloc oil fields continued to produce oil on a cyclical basis. Oil production from these fields during the year totalled 145,125 bbls of oil (36,719 bbls net to Nido).

DEVELOPMENT

- Final Investment Decision (FID) for the Galoc Phase II oil field development was approved by the SC 14C1 Joint Venture in September 2012.
- Total capital expenditure for the Galoc Phase II development estimated by the Operator is gross US$188 million (Nido share: US$43 million).
- The 3D seismic data acquired in late 2011 for the Galoc oil field was fully interpreted and integrated into the field subsurface structural and stratigraphic model.

EXPLORATION AND APPRAISAL

- The SC 14C1 Joint Venture continues to consider an exploration well in the northern part of the Galoc oil field.
- Seismic survey data acquired in late 2011 over SC 54A, SC 54B, SC 14C1 and SC 58 was processed and interpreted, maturing the company's Prospect and Lead Inventories.
- The SC 14C2 Joint Venture undertook extensive detail reservoir simulation modelling studies of the West Linapacan 'A' field and expects to commence front end engineering and design work (FEED) in order to reach a potential development decision in the second half of 2013.
- The Company also initiated a number of important licence amendments in relation to commitments under various Service Contracts, to enable the Company to fully integrate the results and implications of the acquired seismic data into subsurface geological models (SC 54A), mature drillable prospects (SC 58), and provide time to ensure that the Joint Venture can obtain commercially viable terms for the supply of long lead items and a suitable drilling rig (SC 63).
- PNOC-EC agreed to assign the Technical Operatorship role to Nido for the duration of the drilling of the commitment well in SC 63. Key long lead items were purchased for the SC 63 commitment well during the second half of the year.

HEALTH, SAFETY, SECURITY AND ENVIRONMENT (HSSE)

- The Company achieved excellent HSSE performance across all assets and activities during 2012.
- Total Recordable Injury Frequency Rate (TRIFR) for 2012 was zero.
- The 2012 HSSE performance compares favourably with the Australian National Offshore Petroleum Safety and Environment Management Authority (NOPSEMA) benchmark of 8.5 for TRIFR (31 December 2011 performance data).

CORPORATE AND FINANCIAL

- Cash on hand at year end was $18.1 million.
- Gross profit from continuing operations for the 2012 year was $14.9 million, and net profit was $8.4 million.
- Nido executed a senior secured debt facility of up to a maximum of US$30 million to assist with the funding of the Galoc Phase II development.
- In late 2012 the Company announced a placement and Share Purchase Plan (SPP), which following approvals obtained at the Extraordinary General Meeting held on 25 January 2013 and the subsequent placement of the SPP shortfall, have secured gross funds of $17.6 million for the Company.
- Mr Philip A. Byrne was appointed Managing Director on 1 June 2012 and Mr David Whitby retired as a Non-Executive Director on 1 June 2012.

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

Dear Shareholder,

I am pleased to present to you the Company's 2012 Annual Report.

2012 was a year of consolidation for the Company, marked amongst other things by Nido reaching agreement with its Joint Venture partners in Service Contract 14C1 concerning the FID for the Galoc Oil Field Phase II Development.

The approval of Phase II FID was a significant milestone for the Company, underpinning the Company's platform for 2013 and our broader ambition to transition from a junior explorer to a mid-tier producer.

The Phase II development has been supported by the Operator's estimate of reserves as well as the independent reserves report commissioned by Nido, with the Company's net entitlement to Proved Reserves increasing by 65% during the first half of 2012.

With the drilling of two development wells scheduled to commence in Q2 2013, the Operator has estimated that production from the Galoc oil field will increase from about 5,000 bopd (1,100 bopd net to Nido) to around 12,000 bopd (2,700 bopd net to Nido), with the Phase II development targeting an additional 8 million barrels of oil and increasing the life expectancy of the field to 2020.

As part of its financing plan for the Galoc Phase II development, the Company's wholly owned subsidiary, Nido Production (Galoc) Pty Ltd, entered into a reserves-based senior secured debt facility with Standard Bank Plc, enabling it to borrow up to US$30 million over a 3 year term to fund the majority of the project.

In addition, in late 2012 the Company announced a placement and a Share Purchase Plan (SPP), which, following approvals obtained at the Extraordinary General Meeting held on 25 January 2013 and the subsequent placement of the SPP shortfall, have secured gross funds of $17.6 million for the Company. The monies will be used to complete the funding for the Company's participation in the Galoc Phase II development, to fund the Front End Engineering Design work expected to be undertaken in support of a potential redevelopment of the West Linapacan oil field in Service Contract 14C2, and to secure the Company's participation in a Galoc near-field exploration opportunity.

> "The approval of Phase II FID was a significant milestone for the Company, underpinning the Company's platform for 2013 and our broader ambition to transition from a junior explorer to a mid-tier producer."

In relation to West Linapacan A, the Operator of the field, RMA (HK) Limited is currently undertaking a detailed reservoir study which will be followed by a reserves certification process. The Company eagerly awaits the result of these assessments given that the field had an initial production rate of 18,700 bopd and produced 8.5 million barrels before being shut-in in 1996 when oil prices were under US $18.00 a barrel. West Linapacan A presents as an exciting prospect for the Company and further strengthens the Company's resolve to target and develop multi-project production growth from its existing discoveries.

Further bolstering the Company's strategy is the near-field area of Galoc. At year-end, the Joint Venture was considering an exploration prospect that would test this area. If an exploration well is drilled and is successful, it is anticipated that it would be readily developable given its proximity to the Galoc oil field infrastructure.

In relation to the timing of the commitment well in Service Contract 63, the Company secured an extension from the DOE to ensure that the Joint Venture is able to secure more attractive commercial terms from suppliers and also to potentially participate in a beneficial rig sharing arrangement in order to undertake its work programme in the most cost effective manner.

Throughout the course of the year, the Company also devoted considerable resources to interpreting further seismic data in its various Service Contracts, including SC 14C1, SC 54A and B, and SC 58 to mitigate reservoir risk, to refine prospect areas, and to mature prospects to join the Prospect and Lead Inventories of the various Service Contracts.

In 2012, the Company also embarked upon a new ventures programme and was actively considering petroleum interests and acreage in countries in the South-East Asia region with a view to augmenting the Company's portfolio of exploration, development, and production assets. This activity will gather momentum in 2013 and 2014 as the Company begins to face regulatory relinquishments of its existing exploration acreage in the Philippines.

The year saw the departure of our CEO, Mr Jocot de Dios, who had guided the Company for a period of 4 years. We take this opportunity to thank Jocot for his stewardship of the Company during a difficult period and wish him well with his new role as Country Head of GE Corporation in the Philippines.

The 2012 year also witnessed the departure of Mr David Whitby from the Board of Directors. I would like to thank David for his enduring support, enthusiasm and commitment to Nido, having been associated with the Company for the past 8 years. David served as Managing Director from 2004-2008, Non-Executive Chairman from 2008-2009 and a Non-Executive Director from 2009 until June 2012. David contributed significantly to the development of Nido and was pivotal in the acquisition of Nido's impressive exploration and production portfolio in the Philippines.

CHAIRMAN'S LETTER

With the departure of Mr de Dios, we welcomed Mr Philip Byrne's appointment as CEO and then subsequently as Managing Director. Mr Byrne has 32 years' experience in the oil and gas industry in high profile positions both internationally and in Australia and this experience has greatly benefited Nido. Beginning with embracing a proactive communications programme with investors and brokers, Mr Byrne has directed the Company in its strategic drive to develop from a small exploration Company to a diversified exploration and production Company.

I must also note that the share price performance of the Company has been a significant disappointment to the Board, the Leadership Team, and, of course, to shareholders. Although in line with many of our peers, our share price performance has prompted a comprehensive review of the Company's strategic emphasis and priorities, its operational activities, and headcount. As a consequence of this review, which was directed by Mr Byrne, the Company has reduced staff and expects to reduce its overheads by around 20% in 2013. We believe that this change in strategic focus, coupled with increased fiscal rigour, will better position the Company over the longer term.

I would like to close by thanking my fellow Directors, our Leadership Team, and our staff for their continued commitment and dedication this year. I would also like to extend my thanks to you, the shareholders of Nido, for your continued support of the Company. I look forward to sharing with you the positive news that will emanate in 2013 now that the building blocks of the Company's strategy for growth and enhancement of its assets are in place.

Yours sincerely

William Bloking

Chairman

Nido Petroleum Limited

PRODUCTION AND DEVELOPMENT

2012 PRODUCTION SUMMARY

Field	Gross Oil Production		Net Production to Nido	
	Year Total	Average Daily	Year Total	Average Daily
	Bbls	Bopd	Bbls	Bopd
Galoc	1,482,263	5,410	339,135	1,238
Nido & Matinloc	145,125	397	36,719	100
TOTAL	**1,627,388**	**5,807**	**375,854**	**1,338**

GALOC – SC 14 BLOCK C1, NORTH WEST PALAWAN BASIN, PHILIPPINES

The Company's wholly owned subsidiary, Nido Production (Galoc) Pty Ltd holds a 22.879% interest in Service Contract SC 14C1 which contains the Galoc oil field development.

Production Activities

Production recommenced at the Galoc oil field on 2 April 2012 following the completion of the planned shutdown to install a bow mounted non-disconnectable turret mooring system to the FPSO 'Rubicon Intrepid'.

The field performed strongly since recommencement of production with an average production uptime of over 97.5% for the balance of the year. The gross average daily production rate during this period was 5,410 bopd, with total oil produced of 1.5 MMbbls (gross) and cumulative production from the initial start-up in 2008 to the end of the year of 9.9 MMbbls.

Revenue from crude oil sales relating to the Galoc oil field totalled $33.9 million for the year (2011: $58.7 million).

Development

In September 2012 the Operator announced that the Joint Venture had agreed to the FID for the Phase II development of the Galoc oil field. The Phase II development encompasses the drilling of two development wells commencing in Q2 2013 that will be tied back to the FPSO. The Operator has estimated that production should increase from a daily rate of 5,000 bopd to around 12,000 bopd and the life expectancy of the field should be extended to 2020. The total capital expenditure for the Phase II development has been forecast at US$188 million with Nido's estimated share of the cost at US$43 million.

The Operator has entered into key contracts for this development including securing the services of the semi-submersible rig the "Ocean Patriot" to drill the two development wells together with an option to drill a further Galoc exploration well. The rig is due to arrive at the Galoc oil field area in the second quarter of 2013. By year end 2012, key items of equipment required for the development had arrived in forward operating bases in South-East Asia ahead of mobilisation and transfer to the Galoc oil field.

The new Galoc 3D seismic data acquired in late 2011 was fully interpreted and integrated into the field subsurface structural and stratigraphic model enabling the location of the two new Phase II development wells (Galoc 5 and 6) to be selected and agreed to by the Joint Venture.

In addition, the Galoc 3D seismic allowed the maturation of the Galoc northern exploration area and the definition of a low risk near-field drilling opportunity. At the end of the year the Operator, Galoc Production Company WLL (a subsidiary of Otto Energy Limited), had issued the SC 14C1 Joint Venture with a proposal to drill a northern exploration well following the completion of the two Phase II development wells, with a formal approval to be sought by the Operator subject to the completion of technical work on the prospect including an assessment of rig suitability.

PRODUCTION AND DEVELOPMENT - CONTINUED

Reserves

During the year, the Company conducted a review of reserves with production data up to 30 June 2012 and in this context estimates of 1P, 2P and 3P reserves were made with a release issued to ASX Limited on 19 December 2012 noting a 65% increase in net entitlement 1P reserves from 31 December 2011 to 30 June 2012.

The Company commissioned Odin Reservoir Consultants Pty Ltd (ODIN) to review the production data from the Galoc oil field up to the year ending 31 December 2012. ODIN's review compared the production performance of the field with the production forecasts for the Developed Reserves generated as at 30 June 2012.

The review established that the production forecasts generated for 30 June 2012 to 31 December 2012 were similar to the field reported data. Furthermore, ODIN reported that there have been no substantive changes made to the Phase II development plans or the economic screening parameters between 30 June and 31 December 2012.

In these circumstances therefore, the estimates of reserves at 30 June 2012, minus the production from the Galoc oil field from 30 June to 31 December 2012 remain a reasonable estimate of Galoc oil field reserves. The Gross (100%) reserves for Galoc as at year-end are therefore shown below:

Reserve Category	Oil Reserves as at 30 June 2012 (MMstb)	Production 1 July - 31 December 2012) (MMstb)	Oil Reserves as at 1 January 2013 (MMstb)	Remaining Oil Reserves Net to Nido Participating Interest as at 1 January 2013 (MMstb)
DEVELOPED PRODUCING				
Proved Developed	4.92	0.95	3.97	0.91
Proved plus Probable Developed	6.76	0.95	5.81	1.33
Proved plus Probable plus Possible Developed	8.67	0.95	7.72	1.77
UN-DEVELOPED				
Proved Developed	5.46	0.95	4.51	1.03
Proved plus Probable Developed	9.11	0.95	8.16	1.87
Proved plus Probable plus Possible Developed	13.48	0.95	12.53	2.87
TOTAL RESERVES				
Proved Developed	10.38	0.95	9.43	2.16
Proved plus Probable Developed	15.87	0.95	14.92	3.41
Proved plus Probable plus Possible Developed	22.14	0.95	21.19	4.85

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 Lim, BSc. (Hons.), MSc. Director, Odin Reservoir Consultants Pty Ltd. Mr Lim is an independent contractor engaged by the Company under a consultancy services agreement between the Company and Odin Reservoir Consultants Pty Ltd. Mr Lim is a Petroleum Reservoir Engineer and a member of the Society of Petroleum Engineers and has over twenty five years' experience in the sector. Mr Lim consented in writing to the inclusion above of the hydrocarbon reserves information in the form and context in which it appears.

2 Totals may not sum due to rounding.

3 Oil volumes are quoted in millions of stock tank barrels (MMstb) and no account has been taken of losses for fuel or shrinkage.

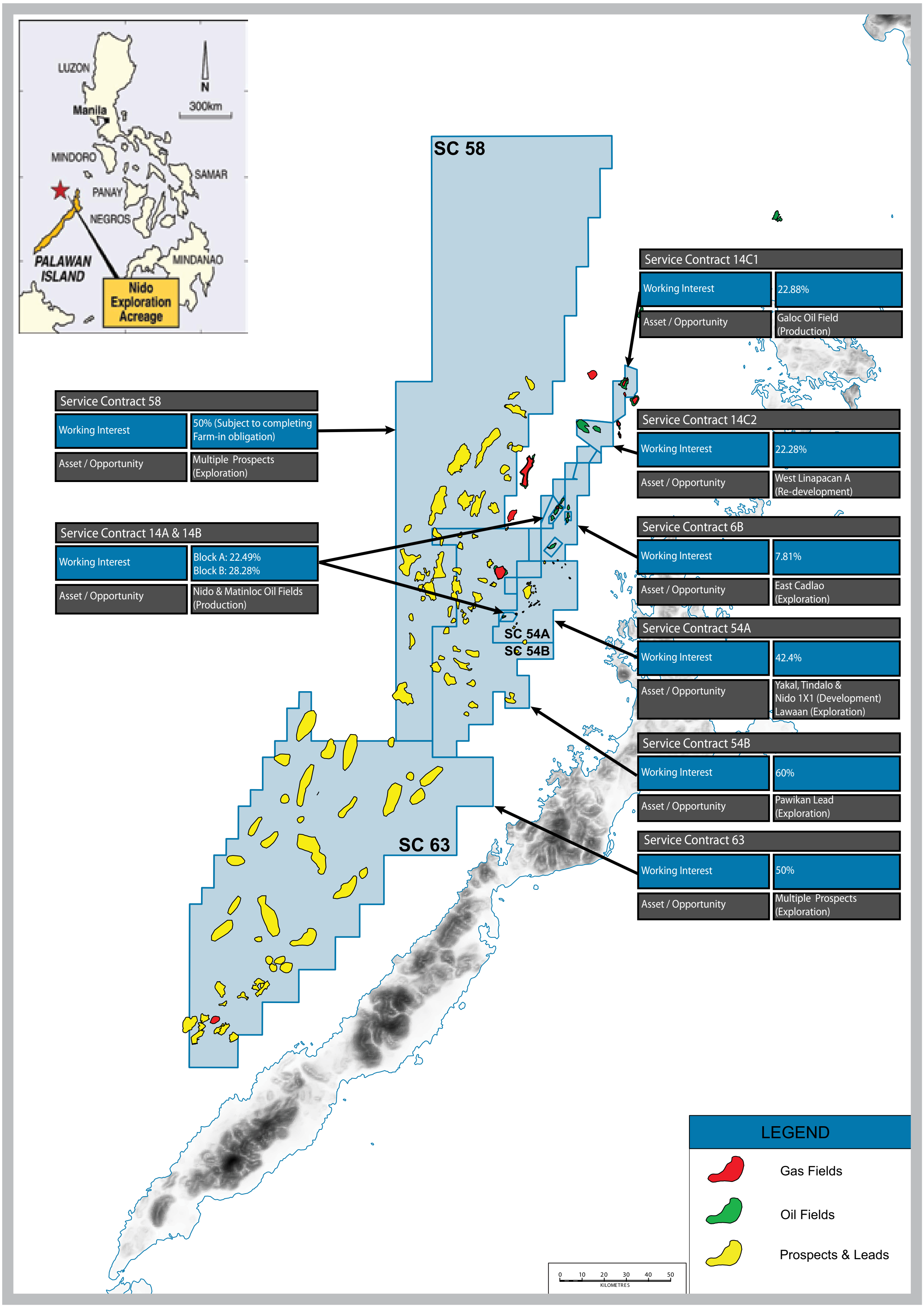
4 Oil Reserves estimates are provided on the basis of Nido's Participating Interest share which is different to Nido's Net Entitlement Share due to the subtraction of the Government's entitlement.

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 2012, both fields produced a combined total of 145,125 bbls, averaging 397 bopd (approximately 100 bopd net to Nido). Revenue from crude oil sales relating to the Nido and Matinloc fields totalled $2.4 million for the year (2011: $2.1 million).

OPERATIONS REVIEW



OPERATIONS REVIEW

EXPLORATION & APPRAISAL

The seismic survey data acquired in late 2011 over Service Contracts 54A and B (2D seismic), 14C1 (3D seismic) and 58 (2D seismic) was processed and interpreted. As a consequence various prospects were matured and added to the Prospect and Lead Inventories of the Service Contracts.

The Company also initiated a number of important licence amendments in relation to commitments under Service Contracts 54A, 58 and 63. These extensions have enabled the Company to fully integrate the results and implications of the acquired seismic data into subsurface geological models (SC 54A), mature drillable prospects (SC 58) and provide time to ensure that the Joint Venture can obtain commercially viable terms for the supply of long lead items and a suitable drilling rig (SC 63).

During the first quarter of the year, Nido operated a Joint Study Group with Total E & P Activities Petrolieres (Total) to evaluate 15 exploration blocks offered in the Philippine Government, Department of Energy (DOE) Philippine Energy Contracting Round No 4 bid round. Nido and Total decided not to tender a bid for any of the blocks on offer.

In the latter half of the year, Nido reviewed a number of selective new venture opportunities located in South-East Asia as part of the Company's strategy to identify and capture high value opportunities to augment its Philippines acreage portfolio.

Nido plans to continue to evaluate selective new venture opportunities as part of its long term strategy to replenish and grow its corporate asset base within the South-East Asian region particularly given the Company will be facing relinquishments of its exploration contract areas in the Philippines during the course of the next 2-3 years.

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.

The West Linapacan oil field is considered a potential re-development opportunity given that the original project was abandoned in 1996 after having produced 8.5 MMbls due to the low oil-price environment which made production from the field uneconomic.

On 10 April 2012, the Department of Energy (DOE) approved the transfer of operatorship of this block from Pitkin Petroleum Philippines PLC to RMA (HK) Limited (RMA (HK) Limited in turn is in the process of transferring operatorship to RMA Energy Pte Ltd).

The Operator has since undertaken extensive detailed reservoir simulation modelling studies of the West Linapacan oil field. The objective of these studies is to develop new static and dynamic reservoir models for the field in order to provide the basis for reserves' certification and identification of the optimum re-development solution for the field.

Reserves' certification is expected to be completed in the first half of 2013 and subject to these results, the Joint Venture expects to commence front end engineering and design work (FEED) in order to reach a potential investment decision in the second half of 2013, with drilling and development of the field expected in 2014.

SC 54 BLOCK A – SC 54A, 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.

The processing of the 2D seismic survey data acquired in late 2011 covering 73 full-fold line kilometres over the Lawaan-Libas prospect area was completed during the first half of the year, with interpretation of results completed as at the end of the reporting period.

The objective of the survey was to determine whether the Lawaan and Libas prospects represent one large prospect at the Nido limestone level. The completion of the 2D seismic interpretation confirmed the structures are separated by a saddle area and are therefore independent.

The high quality seismic data has successfully allowed better imaging of the Lawaan pinnacle reef which has resulted in a reduction in the size of the closure at the Top Nido level.

On 1 June 2012, Nido together with its SC 54A Joint Venture partners, signed a Memorandum of Agreement (MoA) with Viking Energy Holdings 2 Ltd (Viking) under which Viking would develop existing oil fields in exchange for earning a 60% participating interest. Subject to the finalisation of a formal Farm-in Agreement, Nido agreed that it would assign 25.44% of its 42.40% participating interest to Viking.

Following protracted negotiations with Viking, and Offshore Production Solutions Limited (OPS) for a charter contract for the supply of Offshore Processing and Storage Facilities, Viking requested a delay in progressing final documentation until it had undertaken an independent reserves' certification of the prospects. Subsequent to year-end the Joint Venture terminated farm-in discussions with Viking.

Nido has also commenced discussions with the Joint Venture parties involved in the adjoining Service Contract 14A to review the possibilities of jointly developing the Nido 1x1 oil field. These discussions and exchange of technical data are progressing. In the event of a development decision with the SC 14A group, Nido 1x1 would be developed through the Nido "A" platform which is located in SC 14A approximately 2 km west of the Nido 1x1 field.

The SC 54A Joint Venture also plans to evaluate the potential of developing the Yakal field.

During the year the Philippine Department of Energy (DOE) agreed to extend Sub-Phase 6 by a period of 12 months, with Sub-Phase 6 now expiring on 4 August 2013. This extension was requested to enable the SC 54A Joint Venture to fully integrate the results and implications of the new seismic data into the subsurface geological models.

EXPLORATION & APPRAISAL - CONTINUED

SC 54B, NORTH WEST PALAWAN BASIN, PHILIPPINES

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

The processing of the 2D seismic survey data acquired in late 2011 covering 430 full-fold line kilometres over the Pawikan lead was finalised in the second quarter with the interpretation of results completed in the final quarter.

Following completion of the initial structural interpretation of the Pawikan lead, subsurface work has focused on mapping the internal Nido Limestone reservoir facies over the greater Pawikan area in order to better understand the Pawikan reservoir model so as to estimate resource potential and quantify technical risks.

In addition to the detailed studies, future work is planned to better constrain depth conversion sensitivities at the Top Nido stratigraphic level across the greater Pawikan area.

During the course of the year Nido continued to seek farm-out partners in relation to the Service Contract.

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 under the Farm-in Agreement with PNOC Exploration Corporation (PNOC-EC) dated 17 July 2006 (which includes payment of 100% of the costs of drilling an exploration well in Sub-Phase 3).

In January 2012, the Department of Energy (DOE) approved a 12 month extension of Sub-Phase 3, which will now expire on 12 January 2014. Following this extension, PNOC–EC agreed to defer the election to drill date for the exploration well under the Farm-in Agreement until 30 June 2013.

The acquisition and processing of new 2D seismic survey data covering 861 full-fold kilometres over the greater Bikuda-Bulador prospect area, located in the northern sector of the Service Contract, was completed during 2012 and the revised mean unrisked prospective resources (OIIP) estimates for the Bikuda and Bulador prospects are 164 and 112 MMbbls respectively (previously estimated at 184 and 156 MMbbls respectively).

The Bikuda and Bulador prospects have now been added as possible candidates to meet the Sub-Phase well commitment due before 12 January 2014.

Nido is also continuing discussions with third parties as to a potential farm-out of the Service Contract.

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 first half of the year, the re-processing of the Kawayan 3D seismic survey data was undertaken in an attempt to further improve 3D seismic imaging of the complex geology within the block and assist with subsurface risk reduction with respect to trap geometry, reservoir development and charge. The reprocessing of the 3D data provided a general improvement in image quality although in some areas improvement was marginal. A number of leads were enhanced by the re-processed 3D seismic data including the Biniray West, Isapanga and Baragatan leads.

The current leading drilling candidate the Apribada prospect was fully matured during the year and in this context the Apribada prospect was selected on a technical basis to meet the Sub-Phase 2b commitment well. The recommended top hole location of the Apribada-1 well was also approved. Nevertheless, given the relatively high risk nature of the Apribada prospect the Joint Venture continues to consider alternative prospects at this time.

The Apribada prospect is a combination subcrop and three-way dip closed play within a strongly rotated Miocene-aged fault block. Mean unrisked in-place prospective resources for the Apribada prospect are estimated to be 2.6 tcf of gas and 82 MMbbls condensate.

The Basis of Design and engineering studies for the Apribada well were completed and key long lead items were purchased. PNOC-EC also agreed to assign the Technical Operatorship role to Nido for the duration of the drilling of the commitment well. The location of the Apribada prospect in shallow water (~100 metres) will require a jack-up rig and in the event the SC 63 Joint Venture decides to drill an alternative shallow water prospect, the Joint Venture will be able to utilise the Apribada long lead items that have already been purchased.

In the third quarter, the Department of Energy granted the Joint Venture an extension to Sub-Phase 2b for a period of 12 months, with the Sub-Phase now expiring on 24 November 2013. This extension was sought to provide the Joint Venture with additional time to: secure long lead items; identify a suitable rig on commercial terms including a potential beneficial rig share programme with the aim of reducing costs; and conduct post well evaluation to allow full subsurface integration of the well results ahead of the decision to enter Sub-Phase 3.

Nido also continued holding discussions with a number of parties in relation to a potential farm-out of the Service Contract.

EXPLORATION & APPRAISAL - CONTINUED

SC 6 BLOCK B - BONITA, NORTH WEST PALAWAN BASIN, PHILIPPINES

The Company's wholly owned subsidiary Nido Petroleum Philippines Pty Ltd holds a 7.81% working interest in Block B of SC 6. This block contains the East Cadlao prospect, a possible extension of the Cadlao oil field, located in the adjacent SC 6 block which Nido is not a participant in, and a number of Nido Pinnacle reef exploration targets.

There are currently no plans by the Service Contract Joint Venture to acquire additional seismic or consider drilling within the block.

HEALTH, SAFETY, SECURITY AND ENVIRONMENT (HSSE)

HSSE performance for 2012 based on 80,776 man hours resulted in zero fatalities, zero Lost Time Injuries and a Total Recordable Injury Frequency Rate ('TRIFR') of zero which compares well with the Australian National Offshore Petroleum Safety and Environment Management Authority (NOPSEMA) current industry rate for TRIFR of 8.5 as at 31 December 2011.

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 C-1 [2]	North West Palawan	22.88	40	GPC [3]
SC 14 Block C-2 [4]	North West Palawan	22.28	37	RMA [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	441	Nido
SC 54B	North West Palawan	60.00	1,897	Nido
SC 58	North West Palawan	50.00[6]	6,743	Nido [7]
SC 63	North West Palawan	50.00	5,336	PNOC [8]
		Total	14,641	

Data as at 31 December 2012:

(1) The Philodrill Corporation

(2) Galoc Block

(3) Galoc Production Company WLL

(4) West Linapacan Block

(5) RMA (HK) Limited

(6) Subject to Nido completing its obligations under its Farm-in Agreement with PNOC Exploration Corporation

(7) SC 58 Operatorship reverts to PNOC Exploration Corporation upon completion of Nido's farm-in obligations

(8) PNOC Exploration Corporation

DIRECTORS' REPORT

The Directors of Nido Petroleum Limited are pleased to present the Annual Financial Report for the year ended 31 December 2012.

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.

DIRECTORS' REPORT

WILLIAM BLOKING
FAICD

Bachelor of Science, Mechanical Engineering (Summa cum Laude) (University of South Carolina)
Chairman (Appointed 15 May 2009, previously Non-Executive Director appointed 6 February 2008)
Member and former Chairman, Remuneration and Nomination Committee (Appointed as Chairman on 21 January 2010 and resigned as Chairman on 7 March 2013)
Member, Audit & Risk Management Committee (Appointed 6 September 2010)

Bill has over 39 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), Chairman of Transerv Energy Limited (appointed 14 March 2011), and he is a Non-Executive Director of 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.

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). He was also formerly the Managing Director of Eureka Energy Limited (appointed 22 February 2012, resigned 20 June 2012) and a Non-Executive Director of the John Holland Group (appointed 1 January 2007, resigned 7 November 2012) and Miclyn Express Offshore Limited (appointed 19 February 2010, resigned 29 October 2012). Bill was also formerly a Director of the Australian Petroleum Production and Exploration Association and the National Vice Chairman of the Australia China Business Council.

PHILIP BYRNE
MAICD

MA, MSc, DIC. Petroleum Geology
(Trinity College, Dublin/Imperial College, London)
Managing Director (Appointed 1 June 2012)
Formerly COO until promoted to CEO on 20 January 2012 and Managing Director on 1 June 2012

Phil has over 30 years of experience in the oil and gas industry. Prior to Joining Nido Petroleum in January 2012, Phil was President, North West Shelf Australia LNG (ALNG) - the organisation responsible for marketing more than 16 million tonnes of LNG per annum on behalf of the six North West Shelf Project participants. Immediately prior to joining ALNG, Phil was the Australian Country Head of BHP Billiton Petroleum and Head of Production.

Phil commenced his career with Hamilton Brothers Oil and Gas as an Exploration Geologist and subsequently joined the BG Group where he held a number of senior exploration, business development, commercial, and leadership roles in Bulgaria, the UK, Tunisia, and India. Following BG Phil joined BHP Billiton Petroleum and was appointed General Manager of the company's operations in Pakistan. In this role, he had full management accountability for all aspects of gas and condensate production from the Zamzama field, which produces more than 15% of Pakistan's total energy needs. Upon reassignment to Australia, Phil became BHP Billiton Petroleum's Vice President of Gas Marketing for Australia/Asia and subsequently became Australian Country Head and Head of Production. In this latter role, Phil was responsible for all aspects of the company's production and operational activities.

Phil is a past director of the Australian Petroleum Production and Exploration Association (APPEA) and the Australian Japanese Business Co-operation Council (AJBCC). Phil is a member of the Australian Institute of Company Directors.

DIRECTORS' REPORT

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 36-year career in international petroleum exploration and production management, acreage acquisition, production sharing contracts and Joint Venture negotiations. During his early career he joined a national oil company and started the first geological mapping of the Palawan Basin in the Philippines.

For 28 of those 36 years he enjoyed a career with Phillips Petroleum (now Conoco Phillips) 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 to January 2009.

He is the President of TransEnergy International Limited (appointed 28 November 2006), a Hong Kong based private Energy consulting firm, where he has been the principal consultant since December 2006. More recently, in November 2009, Eduardo was appointed Non-Executive Director of Basic Energy Corporation (appointed 1 October 2009), a 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), Aspire Mining Limited (appointed 1 July 2011), 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)
Member and Chair, Remuneration and Nomination Committee (Appointed as a Member 1 June 2012 and Chairman on 7 March 2013)

Dr. Ollis has over 31 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 operated 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 Department of Resources, Energy and Tourism, and relevant State and Territory Ministers. Dr. Ollis is a member of the Australian Institute of Company Directors.

DIRECTORS' REPORT

DAVID WHITBY
MAICD

B.E. Mechanical
(Royal Military College, Canada)
Non-Executive Director (Appointed 15 May 2009 – Resigned 1 June 2012)
Chairman, Non-Independent (Appointed 6 February 2008 – Resigned 15 May 2009)
Managing Director (Appointed 21 July 2004 - Resigned 6 February 2008)
Member, Remuneration and Nomination Committee (Appointed 21 January 2010 – Resigned 1 June 2012)

David's prior work experience includes appointments as Project Director of the West Java Gas Project with Conoco-Phillips 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 was formerly the Non-Executive Chairman of Xstate Resources Limited (appointed 11 February 2011, resigned 27 June 2012) and 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.

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.

COMPANY SECRETARY

JOHN NEWMAN
MAICD

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

John is a lawyer with over 20 years of experience, 12 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 senior positions with the Timor Sea Designated Authority and Cridlands Lawyers where he negotiated the project agreements for the Bootu Creek Manganese Mine. John also worked for the Northern Land Council where he represented traditional Aboriginal owners in relation to resource development projects.

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' 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 2012	
Directors	Held[(1)]	Attended
W Bloking	6	6
P Byrne[(2)]	4	4
E Mañalac	6	6
A Edwards	6	6
M Ollis	6	6
D Whitby[(3)]	2	2
J de Dios[(4)]	0	0

	Audit & Risk Management Committee Meetings 2012	
Directors	Held[(1)]	Attended
A Edwards	3	3
W Bloking	3	3
E Mañalac	3	3

	Remuneration & Nomination Committee Meetings 2012	
Directors	Held[(1)]	Attended
W Bloking	3	3
E Mañalac	3	3
M Ollis[(5)]	1	1
D Whitby[(3)]	2	2

(1) Number of meetings held during term of office.
(2) Appointed 1 June 2012.
(3) Resigned 1 June 2012.
(4) Resigned 20 January 2012.
(5) Appointed 1 June 2012.

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:

				Performance Rights		
Director	Ordinary Shares	Options Over Ordinary Shares	Unissued Ordinary Share Rights	Expiry/ Vesting Date 28 May 2013	Expiry/ Vesting Date 1 June 2014	Expiry/ Vesting Date 1 June 2015
W Bloking	5,055,556	Nil	Nil	Nil	Nil	Nil
P Byrne	7,037,038	Nil	6,666,666	Nil	Nil	3,285,446
E Mañalac	1,000,000	Nil	Nil	Nil	Nil	Nil
A Edwards	1,470,000	Nil	Nil	Nil	Nil	Nil
M Ollis	1,000,000	Nil	Nil	Nil	Nil	Nil

SHARE AND OPTION SCHEMES

UNISSUED SHARES

As at the date of this Report, 25,717,826 performance rights were on issue (30,849,946 as at 31 December 2012). There were also 6,666,666 unissued ordinary share rights outstanding under Mr Byrne's 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 2012. Performance rights holders and the Managing Director under his 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 (2011: 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 and set out in this Annual Report.

PRINCIPAL ACTIVITIES

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

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

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 2012 is included in the section entitled "Operations Review" preceding this Directors' Report.

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 2012 $'000	Consolidated 2011 $'000
Revenue from sale of crude oil	36,294	63,759
Gross profit	14,945	33,196
Net profit/(loss) for the year after tax	8,361	3,795
Basic earnings/(loss) per share (cents) from continuing operations	0.60	0.27
Net cash from/(used in) operating activities	(978)	10,675
Net cash from/(used in) investing activities	(14,888)	(8,486)
Net cash from/(used in) financing activities	13,202	(5,079)

The net profit of the Group for the year ended 31 December 2012 of $8.361 million (2011: $3.795 million), was impacted by the following significant items:

- Oil revenue totalled $36.294 million, of which revenue from the Galoc oil field for the year was $33.945 million (2011: $58.739 million) with the decrease from the 2011 year primarily due to the planned shutdown to install the bow mounted, non-disconnectable turret Mooring and Riser System to the Galoc FPSO. Revenue from the Nido and Matinloc oil fields for the year was $2.349 million (2011: $2.074 million) and there was no revenue from the Tindalo oil field for the year as the field was abandoned in 2011 (2011: $2.946 million);
- Cost of sales for the year decreased by $9.303 million to $21.421 million (2011: $30.724 million) with the decrease due to the planned shutdown of the FPSO at the Galoc oil field;
- Financing costs relating to the debt facility of $0.875 million for the year ending 31 December 2012, have been capitalised to the O&G asset category, and therefore no costs were expensed through the profit and loss for the year (2011: $2.809 million which related primarily to a convertible note that was fully repaid by 30 June 2011);
- Fair value gain of $0.010 million on the embedded derivative relates to the fair value movement of the derivative instrument associated with the debt facility agreement between Nido Production (Galoc) Pty Ltd and Standard Bank plc (2011: fair value gain of $1.775 million related to the Convertible Note call option with Merrill Lynch International (Australia) Limited ('Merrill Lynch'). The Convertible Note call option embedded derivative expired with the full repayment of the underlying debt);
- Income tax benefit of $5.108 million primarily relates to the recognition of a deferred tax asset;
- Total other expenses of $9.990 million (2011: $20.418 million), primarily resulted from the following:
  - Employee benefits expense (net of share based payments expense) of $5.213 million (2011: $5.840 million);
  - Share based payments of $0.723 million (2011: $0.331 million);
  - Office and other expenses of $3.023 million (2011: $3.368 million);
  - There was no impairment of exploration and evaluation expenditure for the year (2011: $6.993 million which related to the drilling of the Gindara-1 well); and
  - There was no abandonment field expenditure for the year (2011: $3.029 million relating to the Tindalo oil field); and
- Net foreign currency loss of $1.733 million (2011: loss of $0.470 million) was due to the strengthening of the Australian dollar which had a negative impact on net US dollar balances predominantly from AUD denominated parent company loans to subsidiaries (with USD functional currencies).

SUMMARY OF FINANCIAL POSITION

The Company's cash reserves at the end of 2012 totalled $18.099 million compared to $21.561 million as at 31 December 2011.

The movement in cash reserves was due primarily to:

- Net proceeds from oil production of $10.810 million;
- Proceeds of $5.168 million (net of capital raising costs) resulting from the issuance of capital;
- Cash inflow from a drawdown on senior secured debt facility with Standard Bank plc of $9.096 million;
- Proceeds of insurance claims and interest revenue totalling $0.637 million;

  offset by:

- Development expenditure of $8.257 million relating primarily to Galoc Phase II oil field development;
- Exploration expenditure of $6.440 million comprising of the 3D seismic reprocessing in SC 14C1,SC 14C2, SC 54A SC 54B and SC 58, geological/geophysical expenditure and drilling pre-planning and long lead item expenditure for SC 63 and seismic inversion studies for SC 58;
- Debt principal repayments of $0.361 million, interest expense of $0.307 million and other financing costs of $0.702 relating to the senior secured debt facility with Standard Bank plc;
- Income tax paid in the year of $3.601 million which relates to operations and taxable profits generated in the wholly owned subsidiary Nido Production (Galoc) Pty Ltd which holds participating interests in SC 14C1 (Galoc oil field) and SC 14A/B (Nido and Matinloc oil fields); and
- Overheads and other expenditures (including foreign exchange movements) of $9.505 million.

OPERATING AND FINANCIAL REVIEW - CONTINUED

PRODUCTION ACTIVITIES

In 2012, the following key production milestones occurring:

- 1.5 MMbbl gross (0.34 MMbbl net to Nido) were produced from the Galoc oil field;
- Production uptime at Galoc averaged 97.5% during the year;
- Production from the Galoc oil field recommenced on 2 April 2012 following a planned shutdown for the refurbishment of the FPSO 'Rubicon Intrepid' which included the installation of a bow mounted turret mooring system; and
- The Nido and Matinloc oil fields continued to produce oil on a cyclical basis. Oil production from these fields in the year totalled 145,125 bbls of oil (36,719 bbls net to Nido).

DEVELOPMENT ACTIVITIES

In 2012, the following key development activities occurring:

- FID for the Galoc Phase II development of the Galoc oil field was approved in September 2012 by the SC 14C1 joint venture. The Phase II development encompasses the drilling of two development wells commencing in Q2 2013 that will be tied back to the FPSO;
- Total forecasted capital expenditure for the Galoc Phase II development is estimated by the Operator at gross US$188 million (Nido's estimated share US$43 million);
- The Operator has entered into key contracts for this development including securing the services of the semi-submersible rig the "Ocean Patriot" to drill the two 2 development wells together with an option to drill a further Galoc exploration well to the north of the main field area subject to the Operator completing technical work and Joint Venture approvals; and
- The 3D seismic data acquired in late 2011 for the Galoc oil field was fully interpreted and integrated into the field subsurface structural and stratigraphic model.

EXPLORATION & APPRAISAL ACTIVITIES

In 2012, Nido undertook the following key exploration activities:

- Seismic survey data acquired in late 2011 over SC 54A, SC 54B, SC 14C1 and SC 58 was processed and interpreted maturing the company's Prospect and Lead Inventories;
- The SC 14C2 Joint Venture undertook extensive detail reservoir simulation modelling studies of the West Linapacan 'A' field with a view to completing a reserves' certification in the first half of 2013. It is anticipated that this will be followed by front end engineering and design work (FEED) in order to reach a potential investment decision in the second half of 2013, with drilling and development of the field expected in 2014;
- The Company also initiated a number of important licence amendments in relation to commitments under various service contracts, to enable the Company to fully integrate the results and implications of the acquired seismic data into subsurface geological models (SC 54A), mature drillable prospects (SC 58) and provide time to ensure that the Company can obtain commercially viable terms for the supply of long lead items and a suitable drilling rig (SC 63); and
- In SC 63, the Basis of Design and engineering studies for the well at Apribada were completed and key long lead items were purchased. PNOC-EC also agreed to assign the Technical Operatorship role to Nido for the duration of the drilling of the commitment well.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW - CONTINUED

CORPORATE ACTIVITIES

Entered into a Senior Secured Debt Facility to Fund Galoc Phase II Development

On 19 July 2012 Nido Production (Galoc) Pty Ltd signed a senior secured debt facility with Standard Bank plc for up to a maximum of US$30 million for a term of three years. The facility will provide a significant portion of Nido's share of funding for the SC14 C1 - Galoc oil field Phase II development.

The Standard Bank facility is a reserves-based lending facility with a LIBOR plus premium interest rate. The initial drawdown of the facility was $9.1 million (US$9.4 million) and subsequent to year end, on 31 January 2012, Credit Suisse AG syndicated into the facility.

Successful Completion of $11.6 Million Share Placement

On 30 November 2012, Nido completed a successful placement of 430,265,594 ordinary fully paid shares to sophisticated and professional investors at $0.027 per share to raise total proceeds of $11.617 million (before costs).

The placement was split into unconditional and conditional tranches of $5.633 million and $5.984 million respectively. The conditional tranche was subject to Nido shareholder approval which was obtained subsequent to year end at an Extraordinary General Meeting held on 25 January 2013.

Successful Completion of $6.0 Million Share Purchase Plan and Share Purchase Plan Shortfall

As part of the capital raising activities, existing shareholders were offered the opportunity to participate in a SPP in which the Company was seeking to raise $6 million. Eligible shareholders were able to purchase up to $15,000 worth of shares at the same price as the placement ($0.027 per share). Subsequent to year end, on 4 January 2013, the SPP offer closed raising gross proceeds of $2.257 million (with a shortfall of approximately $3.743 million from the original target of $6 million). 83,611,262 ordinary shares were therefore allotted at an issue price of $0.027 per share on 11 January 2013.

At the Company's Extraordinary General Meeting held on 25 January 2013 the Company sought and received approval to place the $3.743 million shortfall and subsequently on 27 February 2013 138,610,960 ordinary fully paid shares were issued to sophisticated and professional investors with the assistance of Canaccord Genuity (Australia) Limited as lead arranger.

Proceeds from the SPP and Share Placement are intended to be used towards the Company's participation in the Galoc Phase II development, the Galoc North near field exploration opportunity and West Linapacan A Front End Engineering and Design work.

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.

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 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.

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 2012, Nido supported staff involvement with the Christian Centre for Social Action who provide assistance in providing meals to the homeless or disadvantaged in inner city Perth, Western Australia and Manna Industries who also assist the homeless and disadvantaged with the donation of Christmas gifts and vouchers.

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 of zero fatalities, Zero Lost Time Injuries. The Total Recordable Injury Frequency Rate (TRIFR) for 2012 was zero.

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 established an HSSE System comprising 16 Standards which provide 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)
P Byrne	Managing Director (Appointed 1 June 2012, previously CEO and COO)
E Mañalac	Director (Non-Executive)
A Edwards	Director (Non-Executive)
M Ollis	Director (Non-Executive)
J de Dios	President & CEO (Executive Director) (Resigned 20 January 2012)
D Whitby	Director (Non-Executive) (Resigned 1 June 2012)

(ii) Executives

A Gilbert	Chief Financial Officer
J Pattillo	Head of Exploration
J Newman	General Counsel and Company Secretary

REMUNERATION POLICY

At the 2012 AGM, the Company received its first strike (in excess of 25% negative votes) against the adoption of its 2011 Remuneration Report. No specific questions were raised at the AGM in relation to the remuneration policy and framework, nor specifically in relation to the remuneration of Directors or Executives.

Notwithstanding there were no specific questions directed to the Company concerning its remuneration practices at the AGM in 2012, the Company has subsequently commenced a review of its remuneration policies and engaged external remuneration consultants to advise on best practice. Further, a rigorous review of the Company's general and administrative budget has been undertaken, including staffing and salary levels, to ensure expenditure is appropriate given the nature and level of operational activity and market capitalisation. In these circumstances, the Company anticipates reducing general and administrative expenditure by 20% during the year.

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 2012.

	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
EPS (cents)	0.60	0.27	(3.92)	(2.69)	0.71
Share price	0.027	0.04	0.115	0.185	0.093

REMUNERATION PRINCIPLES

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

Non-Executive Directors	Managing Director & Executives
• 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 whilst 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. The Company has taken the position that independent external advice will generally be sought every second year.

In 2012, the Board resolved to obtain advice and receive recommendations directly from independent external consultants, Godfrey Remuneration Group (GRG) in relation to the remuneration of Non-Executive Directors and Executives.

In accordance with the Company's Remuneration Policy, the Board was presented with a proposal by GRG outlining its independence of the Company's Key Management Personnel and confirming that no other work had been undertaken in the last three years in relation to the Company. The Board, based on that information, was satisfied that GRG were independent and therefore resolved to approve the entry into a remuneration consultancy with GRG to provide independent remuneration recommendations to the Company.

REMUNERATION REPORT (AUDITED) - CONTINUED

Following GRG's appointment, any remuneration recommendations have been provided directly to the Chair of Remuneration and Nomination Committee.

Based upon the arrangements as outlined above, the Board is satisfied that any remuneration recommendations provided by GRG were made free from any undue influence of the members of the KMP to whom the advice relates. GRG charged the Company $21,000 for the independent remuneration recommendations provided.

In 2012, the Non-Executive Directors were paid fees associated with their duties as Directors, including their membership of 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 remuneration levels were based on advice received in 2008 from independent remuneration consultants and originally took effect on 1 July 2008 and have not been increased since that time. Following recommendations received from GRG in 2012 and also recognising the reduction in the Company's market capitalisation over this period, the Company has adjusted NED remuneration for the 2013 year.

Specifically the Company has effective as at 1 January 2013 abolished the fees that the Chairman of the Board receives for membership of the Audit and Risk Management Committee as well as the fees he receives as Chair of the Remuneration and Nomination Committee. This will result in a reduction of Mr Bloking's fees from $123,000 to $110,000 for the 2013 calendar year. Further, the Company has also reduced the uplift that the Chairman of the Audit and Risk Management Committee receives for that role from $26,000 to $13,000 (20 per cent of the base fee) which will result in a reduction of Mr Edwards' total fees from $91,000 to $78,000 for the 2013 calendar year.

In addition, the Company has decided not to replace Mr Whitby as a Director following his resignation on 1 June 2012 thereby further reducing the overall level of NED remuneration.

In relation to other benefits, 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 or performance rights to Non-Executive Directors during 2012 in accordance with the Company's policy prohibiting grants of options or performance rights 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 Managing Director 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.

The Company carries out a rigorous arm's length 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 Managing Director, 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.

The remuneration of Non-Executive Directors for the periods ending 31 December 2012 and 31 December 2011 is detailed further in this Remuneration Report. The amounts listed under 'Salary & Fees' include both Director fees (totalling $377,822, including superannuation) and consultancy fees (totalling $145,500) received by the Non-Executive Directors.

ALTERNATE DIRECTORS

No separate remuneration is offered to or received by Alternate Directors for the performance of their roles as Alternate Directors. At present the Company does not have any Alternate Directors.

MANAGING DIRECTOR AND EXECUTIVE REMUNERATION STRUCTURE

The Company maintained its performance management procedure for Executives and staff and as part of such procedure each Executive undertakes an annual performance appraisal with the Managing Director. The Managing Director's performance is in turn reviewed by the Board.

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 varying 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 and individual performance, and relevant comparable remuneration in the oil and gas industry. The Company has taken the position that independent external advice will generally be sought every second year.

REMUNERATION REPORT (AUDITED) - CONTINUED

In the 2012 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 advice and recommendations received from GRG, the Board has resolved that there will be no increase in base salaries awarded to Executives and base salaries will therefore remain at 2012 levels.

The Company intends to re-orientate Executive remuneration so that there is a greater emphasis on 'at risk' remuneration than is currently the case and it is expected that this transition will occur over a couple of years.

In relation to staff other than Executives, the Board resolved to award an average increase of 4.5% compared with 2012 levels.

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.

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 Managing Director.

As reported in the 2011 Annual Report, 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 (10%), HSSE performance (15%), metrics in relation to the Gindara-1 well (15%), Galoc development and production (15%), portfolio optimisation and strategic farm-out initiatives (35%) and relevant Joint Venture approvals to drill an exploration well (10%).

Given the achievement of between threshold and stretch for most of the target criteria apart from the Gindara-1 well, 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 the Company's 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.

The cash STI bonuses paid to Executives and Executive Directors in 2012 (based on assessments made against 2011 Performance Targets) amounted to $50,298 (2011: $220,256). 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.

For 2012, the Board again determined a set of STI targets reflecting the Company's strategy, business plan and budget. The 2012 targets were performance against budget (10%), HSSE performance (5%), metrics in relation to Galoc production and the financing of the Galoc Phase II project (25%), obtaining approval to drill an exploration well in SC 54A and SC 63 (20%), portfolio optimisation and farm-out initiatives (30%) as well as staff development objectives and investor relations (10%). These KPIs were again chosen because they align individual performance with the achievement of Nido's strategic plan.

Against this weighted group of performance targets, the Company performed at stretch in relation to budget and HSSE, at target in relation to the metrics for Galoc production and securing Phase II financing and at threshold or below with respect to farm-out initiatives and obtaining approval to drill an exploration well in SC 54A and SC 63, staff development objectives and investor relations.

The total STI bonus pool calculated in accordance with the STI policy notionally amounted to 10% of the gross base salary of the Company's staff. However, given the Company's overall share price performance for the 2012 year, the Board resolved to make no STI award to the Company's Executives in 2013 against the targets that were set in 2012.

In addition to the STI Plan, the Managing Director 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 2012 year, the Managing Director did not grant any such cash bonuses (2011:$4,085).

REMUNERATION REPORT (AUDITED) - CONTINUED

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.

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, Victoria Petroleum NL, 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 LTI performance rights granted to Executives during the year are listed in this Report.

REMUNERATION REPORT (AUDITED) - CONTINUED

MANAGING DIRECTOR AND EXECUTIVE EMPLOYMENT CONTRACTS

It is the Board's policy that employment contracts are entered into with the Managing Director and Executives. Prior to his resignation on 20 January 2012, the Chief Executive Officer, 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 expense in relation to these performance rights have been reversed; and
- There were no termination benefits and no payments to Mr de Dios upon his resignation.

MANAGING DIRECTOR (APPOINTED CHIEF OPERATING OFFICER 29 DECEMBER 2011, PROMOTED TO CHIEF EXECUTIVE OFFICER 20 JANUARY 2012 AND APPOINTED MANAGING DIRECTOR 1 JUNE 2012)

A summary of Mr Philip 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 (subject to shareholder approval);
- 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. The first tranche of 1,666,667 Ordinary Shares was issued on 29 June 2012. The second tranche of 1,666,667 Ordinary Shares was issued on 31 December 2012 which leaves an outstanding balance of 6,666,666 to be allocated over a further four tranches; and
- 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.

Mr Byrne was appointed as Managing Director on 1 June 2012. Although Mr Byrne became an Executive Director, his remuneration package remained unchanged.

The table below sets out the Sign on and Retention Bonus granted to Mr Byrne in 2011. The share rights are issued free of charge and entitle the holder to subscribe for one fully paid ordinary share in the Company.

REMUNERATION REPORT (AUDITED) - CONTINUED

	Terms and Conditions of Each Grant							
	Number of Shares Granted	Number of Shares Vesting in the Year [1]	Percentage of Cumulative Shares Vested (%)	Grant Date	Value each at Grant Date ($)	Number of Shares Forfeited	Percentage of Shares Forfeited (%)	Exercise Price
2012								
Director								
P Byrne	-	3,333,334	50.00%	8/10/11	0.045	Nil	Nil	Nil
Total	-	3,333,334						
2011								
Executive								
P Byrne	10,000,000	1,666,667	16.67%	8/10/11	0.045	Nil	Nil	Nil
Total	10,000,000	1,666,667						

[1] For accounting purposes under AASB 2 "Share Based Payments" treated as vested for the year ending 31 December 2012 and 31 December 2011 respectively. Note, the total number of shares vested during the year ended 31 December 2012 for P Byrne was 3,333,334 (33.33% of shares vested) and for the year ended 31 December 2011 was 1,666,667 (16.67% of shares vested). Total cumulative number of shares vested from the initial grant was 5,000,001 (50.00% of shares vested).

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 Managing Director, the Company will pay the Executive a sum equivalent to 12 months of his or her fixed remuneration package[2].

[2] 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.

REMUNERATION REPORT (AUDITED) - CONTINUED

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 and Performance Rights***	% Performance Related***
W Bloking									
▪ 2012	112,844	-	-	10,156	-	-	123,000	-	-
▪ 2011	184,067	-	-	9,816	-	-	193,883	-	-
D Whitby(1)									
▪ 2012	170,566	-	-	2,256	-	-	172,822	-	-
▪ 2011	169,133	-	-	5,367	-	-	174,500	-	-
J de Dios(2)#									
▪ 2012	109,915	-	53,201	-	-	-	163,116	-	-
▪ 2011	684,887	61,583	194,963	51,283	(25,268)^	-	967,448	-	6.4%
P Byrne(3)#									
▪ 2012	495,913	-	15,388	59,538	20,403	277,131	868,373	34.3%	2.3%
E Mañalac									
▪ 2012	65,596	-	-	5,904	-	-	71,500	-	-
▪ 2011	65,596	-	-	5,904	-	-	71,500	-	-
V Pérez(4)#									
▪ 2012	-	-	-	-	-	-	-	-	-
▪ 2011	91,503	-	-	4,725	-	-	96,228	-	-
A Edwards									
▪ 2012	83,486	-	-	7,514	-	-	91,000	-	-
▪ 2011	83,486	-	-	7,514	-	-	91,000	-	-
M Ollis									
▪ 2012	59,633	-	-	5,367	-	-	65,000	-	-
▪ 2011	5,750	-	-	10,500	-	-	16,250	-	-
Total Remuneration: Directors									
▪ 2012	1,097,953	-	68,589	90,735	20,403	277,131	1,554,811	19.1%	1.3%
▪ 2011	1,284,422	61,583	194,963	95,109	(25,268)	-	1,610,809	-	3.8%

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 and Performance Rights***	% Performance Related***
J Williams									
▪ 2012	-	-	-	-	-	-	-	-	-
▪ 2011	155,099	21,689	8,390	10,483	(21,486)^	-	174,175	-	12.5%
P Byrne(3)									
▪ 2011	3,846	-	-	462	-	76,873	81,181	94.7%	94.7%
J Pattillo#									
▪ 2012	442,674	19,789	10,475	48,635	95,298	-	616,871	15.4%	18.7%
▪ 2011	407,206	61,424	9,053	55,960	64,196	-	597,839	10.7%	21.0%
A Gilbert#									
▪ 2012	333,336	16,634	7,376	25,683	67,738	-	450,767	15.0%	18.7%
▪ 2011	308,820	43,026	8,149	24,317	44,968	-	429,280	10.5%	20.5%
J Newman#									
▪ 2012	284,190	13,875	6,196	25,200	55,940	-	385,401	14.5%	18.1%
▪ 2011	262,838	32,534	5,728	24,800	36,347		362,247	10.0%	19.0%
Total Remuneration: Executives									
▪ 2012	1,060,200	50,298	24,047	99,518	218,976	-	1,453,039	15.1%	18.5%
▪ 2011	1,137,809	158,673	31,320	116,022	124,025	76,873	1,644,722	12.2%	21.9%

REMUNERATION OF KEY MANAGEMENT PERSONNEL - NOTES

[1] D Whitby - Resigned on 1 June 2012 as Non-Executive Director

[2] J de Dios - Resigned on 20 January 2012 as Chief Executive Officer

[3] P Byrne - Appointed on 20 January 2012 as Chief Executive Officer

[4] V Perez - resigned on 17 November 2011 as Non-Executive Director

\# Includes non-cash benefits paid.

^ Credits for the year ended 31 December 2011 due to forfeiture of performance rights which is in accordance with AASB 2 "Share Based Payments", resulting from the resignation of Ms Williams (credit of $21,486) in May 2011 and Mr de Dios giving notice of his resignation in October 2011 (credit of $25,286).

* 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 are set out in the table immediately below. The payments reflect each Executive's performance against the STI targets that were chosen in the previous year.

*** Share-based payments forfeiture excluded from calculation.

REMUNERATION REPORT (AUDITED) - CONTINUED

Key Management Personnel	Date Paid	Amount Paid	Nature	Max. Potential Entitlement*	Percentage Granted	Percentage Forfeited
2012						
Jonathan Pattillo	23/03/2012	19,789	Cash	18%	5%	13%
Ashley Gilbert	23/03/2012	16,634	Cash	18%	5%	13%
John Newman	23/03/2012	13,875	Cash	18%	5%	13%
Philip Byrne	-	-	-	-	-	-
2011						
Jocot de Dios	05/04/11 26/08/11	30,792 30,792	Cash Cash	18%	13.8%	4.2%
Jonathan Pattillo	23/03/11 26/08/11	30,712 30,712	Cash Cash	18%	15.5%	2.5%
Ashley Gilbert	23/03/11 26/08/11	21,513 21,513	Cash Cash	18%	15.5%	2.5%
John Newman	23/03/11 26/08/11	16,267 16,267	Cash Cash	18%	15.5%	2.5%
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	-	-	-	-	-	-

* Under the Company’s STI Policy, the maximum potential entitlement is 18% of an individual’s base salary for the year ending 31 December 2012 and 31 December 2011 respectively.

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 PERFORMANCE RIGHTS TO DIRECTORS – GRANTED AND VESTED DURING THE YEAR

The table below sets out performance rights granted during the year to Directors. The performance rights were issued free of charge and entitle the holder to subscribe for one fully paid ordinary share in the Company subject to the relevant vesting criteria in the Employee Performance Rights Plan.

	Terms and Conditions of Each Grant							
	Number of Performance Rights Granted	Grant Date	Value of each Right at Grant Date ($)	Exercise Price ($)	First Exercise Date	Last Exercise Date/ Expiry Date	Number of Performance Rights Vested During the Year	% of Performance Rights Vested During the Year
2012								
Directors								
P Byrne	3,285,446	1/6/12	0.032	Nil	1/6/15	1/6/15	-	-
	3,285,446							
2011								
Directors								
J de Dios[1]	1,347,047	1/6/11	0.103	Nil	1/6/14	1/6/14	-	-
	1,347,047							

[1] For accounting purposes under AASB 2 "Share Based Payments" the performance rights noted in this table were forfeited as at the date of Mr de Dios' resignation.

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

REMUNERATION REPORT (AUDITED) - CONTINUED

COMPENSATION PERFORMANCE RIGHTS TO EXECUTIVES – GRANTED AND VESTED DURING THE YEAR

The table below sets out performance rights granted to Executives during the year. The performance rights were issued free of charge and entitle the holder to subscribe for one fully paid ordinary share in the Company subject to the relevant vesting criteria in the Employee Performance Rights Plan.

	Terms and Conditions of Each Grant							
	Number of Performance Rights granted	Grant Date	Value each at Grant Date ($)	Exercise Price ($)	First Exercise Date	Last Exercise Date/ Expiry Date	Number of Performance Rights Vested During the Year	% of Performance Rights Vested During the Year
2012								
Executives								
J Pattillo	2,871,999	5/4/12	0.044	Nil	5/4/15	5/4/15	-	-
J Newman	1,809,230	5/4/12	0.044	Nil	5/4/15	5/4/15	-	-
A Gilbert	2,102,686	5/4/12	0.044	Nil	5/4/15	5/4/15	-	-
	6,783,915							
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	-	-
	3,899,429							

REMUNERATION REPORT (AUDITED) - CONTINUED

VALUE OF OPTIONS AND PERFORMANCE RIGHTS GRANTED AS PART OF REMUNERATION

	Value of Performance Rights Granted during the Year[1] ($)	Value of Performance Rights Exercised during the Year ($)	Value of Performance Rights Lapsed during the Year[2] ($)	Remuneration Consisting of Performance Rights during the Year (%)
2012				
Directors				
P Byrne	105,134	-	-	27.5%
Executives				
J Pattillo	126,368	-	-	15.4%
J Newman	79,606	-	-	14.5%
A Gilbert	92,518	-	-	15.0%
2011				
Directors				
J de Dios [3]	138,746	-	107,756	13%
Executives				
P Byrne	-	-	-	-
J Williams [3]	86,444	-	254,495	50%
J Pattillo	103,965	-	-	17%
J Newman	64,318	-	-	18%
A Gilbert	72,825	-	-	17%

1 The assessed fair values of the performance rights is estimated at date of grant using a Monte Carlo simulation model, taking into account the exercise price (if applicable), term of right, the share price at grant date and expected price volatility of the underlying share, expected dividend yield and the risk-free interest rate for the term of the right.

2 Value calculated on share price on date of forfeiture.

3 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 2012 or 2011.

SHARES ISSUED ON EXERCISE OF COMPENSATION PERFORMANCE RIGHTS

	Shares Issued Number	Paid per Share $	Unpaid per Share $
2012			
Directors and Executives			
None	-	-	-
2011			
Directors and Executives			
None	-	-	-

End of Remuneration 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 through 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 dissemination 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 15 and 16 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.

SUBSEQUENT EVENTS

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

- The SPP offer period closed on 4 January 2013 with gross proceeds raised of $2.257 million and a total of 83,611,262 shares were issued.
- On 25 January 2013 the Company held an EGM which sought approval in relation to the refreshment of placement capacity following the issue of shares in December 2012, the approval of the conditional placement, the issue of shares to the Company's Directors as part of the conditional placement and the approval of the shortfall from the SPP ($3.743 million). All resolutions were approved at the meeting.
- On 31 January 2013, the Company announced that Credit Suisse AG had joined the senior secured debt facility and that the second tranche of the debt facility had been approved up to a maximum sum of US$30 million.
- The Company placed the $3.743 million SPP shortfall on 27 February 2013.

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. 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	$21,251

Signed in accordance with a Resolution of the Directors.

William J. Bloking

William Bloking FAICD

Chairman
19 March 2013

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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 2012, 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

Robert A Kirkby

Partner
19 March 2013

RK:MJ:NIDO:018

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 appropriate 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 2012 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 factors such as the size of the Company and the Board, resources available and 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 Managing Director 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 Managing Director 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;

(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.

COMPLIANCE WITH BEST PRACTICE RECOMMENDATIONS - CONTINUED

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 Managing Director 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; and

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

Board Structure

With the resignation of Mr de Dios on 20 January 2012 as Executive Director, the Board was reduced in number to five Non-Executive Directors, four of which were independent and no Executive Directors. Following Mr Whitby's resignation on 1 June 2012, the Company appointed Mr Philip Byrne as Managing Director (Executive Director – Non-independent). As at the date of this report, the Board is comprised of four independent Non-Executive Directors and one Executive Director. 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 2012:

- Mr Jocot de Dios resigned as Chief Executive Officer on 20 January 2012;
- Mr David Whitby resigned as Non-Executive Director on 1 June 2012; and
- Mr Philip Byrne was appointed as Managing Director on 1 June 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 Directors who served the Company during the 2012 year who are not considered to be independent are:

- Mr Philip Byrne, (Managing Director);
- Mr Jocot de Dios, Chief Executive Officer (prior to his resignation on 20 January 2012); and
- Mr David Whitby, Non-Executive Director (prior to his resignation on 1 June 2012.

Mr Byrne was employed in an executive capacity for the 2012 year as Chief Executive Officer, and then Managing Director as of 1 June 2012. My Byrne is an Executive Director to date, and is therefore deemed not to be independent.

Prior to his resignation on 20 January 2012, Mr de Dios was employed in an executive capacity and he was also therefore deemed to be non-independent.

Mr Whitby was deemed not to be independent due to there not being a period of three (3) years between his cessation as Managing Director (Mr Whitby resigned 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 a Non-Executive Director until his resignation on 1 June 2012) and due to being a material consultant to the Company in 2008 following his resignation as Managing Director.

The Board considers that Messrs Bloking, Mañalac, Edwards and Dr. Ollis are independent Directors in accordance with ASX Principle 2.

In reaching this view, the Board has considered any consultancy agreements existing between Messrs Bloking, Mañalac, Edwards and Dr. Ollis and the Company and has determined that the level of consultancy fees (if any) 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 Managing Director 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.

COMPLIANCE WITH BEST PRACTICE RECOMMENDATIONS - CONTINUED

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 potential base of 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 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 and diversity 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.

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 encouraged to undertake continuing education and training relevant to the discharge of their duties to the Company and are required to undertake the Australian Institute of Company Directors (AICD) Course or an equivalent course. 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 Dr Michael Ollis as Chairman (appointed 7 March 2013), and Mr Eduardo Mañalac and Mr William Bloking (served as Chairman of the Committee until 7 March 2013) 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

As at the date of this Report the Board was in the process of commencing its evaluation for the 2012 year by way of an internal evaluation questionnaire. It is anticipated that the results of these surveys will be relayed to Mr Bloking (Chairman of the Board) for consideration and further discussion with individuals where necessary.

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

COMPLIANCE WITH BEST PRACTICE RECOMMENDATIONS - CONTINUED

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.

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 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 2012 year and an update on their status is set out in the table below:

Objective	Status
Annually review policies (and procedures to ensure alignment with Diversity Policy and to encourage female participation and progression through workplace flexibility.	Completed – Company updated its Parental Leave Policy to provide for 12 weeks paid annual maternity leave. The Company also agreed to flexible work arrangements for an employee that returned to work from maternity leave.
Formal career development plans in place for all employees.	It is expected that career plans will be completed in 2013.
Annually review pay equity to address any gender gaps.	Completed – the Company reviews pay equity in the context of remuneration reviews.
Ensure that the Company's commitment to diversity is advised to all external agencies engaged to provide recruitment services.	Completed – Routinely advised to all external agencies engaged.
Engage with employees on parental leave on a quarterly basis.	Completed – Satisfied with respect to employees on maternity leave.
Specific Target - at least one female Board member and Leadership Team member by end 2012.	Not fulfilled – the Company was not able to secure suitable female candidates when vacancies have arisen.
Specific Target – maintain at least 50% female proportion of overall employee levels (2011: 50% of overall staff were female).	Satisfied as at 31 December 2012 – 52%.

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).	52% at 31 December 2012.
Senior Executive Positions.	Nil.
Board.	Nil.

COMPLIANCE WITH BEST PRACTICE RECOMMENDATIONS - CONTINUED

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 insider information. The policy also prohibits Key Management Personnel and employees who participate in a Company equity-based incentive plan 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 a Company equity-based incentive plan 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 must 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; and

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.

The Managing Director, 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 Principle4.

The Committee met three times during the year ended 31 December 2012. The external auditor was in attendance at the March and August meetings with respect to the approval of the full year 2011 accounts and the half year accounts for 2012. 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.

COMPLIANCE WITH BEST PRACTICE RECOMMENDATIONS - CONTINUED

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 2012 which forms part of the Directors' Report on page 34. 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 2012 are set out in the Directors' Report on page 33.

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; and

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; and

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 (AGM) 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 two 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).

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 Managing Director (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act 2001 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; and

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

COMPLIANCE WITH BEST PRACTICE RECOMMENDATIONS - CONTINUED

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 Managing Director, 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 progress and cashflows;
- A designated member of the Leadership Team responsible for each risk; 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.

Managing Director and CFO Declaration

Consistent with ASX Principle 7 and section 295A of the *Corporations Act 2001*, the Managing Director 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 Managing Director 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; and

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

CORPORATE GOVERNANCE STATEMENT

COMPLIANCE WITH BEST PRACTICE RECOMMENDATIONS - CONTINUED

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:

- Michael Ollis, Chairman;
- William Bloking; Member and
- Eduardo Mañalac, Member.

Messrs Bloking and Mañalac and Dr. Ollis are considered to be independent. Mr David Whitby resigned on 1 June 2012. Prior to his resignation, Mr Whitby was deemed not to be independent due to there not being a period of three (3) years between his cessation as Managing Director (Mr Whitby resigned 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 until his retirement on 1 June 2012).

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 2012. 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 Managing Director and Senior Executives

Details of the remuneration of the Managing Director and senior Executives are set out in the Remuneration Report which forms part of the Directors' Report.

CORPORATE GOVERNANCE DOCUMENTS

Please visit our website (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, Communications Strategy and Compliance Procedures.

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 2012 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 2012.

For and on behalf of the Board

William Bloking FAICD

Chairman
19 March 2013

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

		Consolidated	
		2012	2011
	Notes	$'000	$'000
Revenue from sale of crude oil		36,294	63,759
Other revenue	2(a)	72	161
Total revenue		36,366	63,920
Cost of sales	3(a)	(21,421)	(30,724)
Gross profit		14,945	33,196
Other income	2(b)	21	1,072
Administrative and other expenses	3(b)	(9,990)	(20,418)
Foreign currency gains/(losses)		(1,733)	(470)
Finance costs	3(c)	-	(2,809)
Fair value gain/(loss) on embedded derivatives		10	1,775
Profit/(loss) before income tax		3,253	12,346
Income tax benefit / (expense)	4	5,108	(8,551)
Net Profit/(loss) for the year		**8,361**	**3,795**
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations		929	(25)
Income tax relating to items of other comprehensive income/(loss)		-	-
Other comprehensive income/(loss) for the year, net of tax		929	(25)
Total comprehensive income/(loss) for the year		**9,290**	**3,770**
		Cents	Cents
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:			
Basic profit per share	19	0.60	0.27
Diluted profit per share	19	0.59	0.27

BALANCE SHEET

AS AT 31 DECEMBER 2012

		Consolidated	
		2012	2011
	Notes	$'000	$'000
ASSETS			
Current Assets			
Cash and cash equivalents	5	18,099	21,561
Trade and other receivables	6	13,876	6,964
Inventories	7	2,522	1,227
Other financial assets	8	33	28
Total Current Assets		34,530	29,780
Non-Current Assets			
Plant and equipment	9	392	378
Oil and gas properties	10	19,661	14,003
Exploration and evaluation expenditure	11	30,587	28,187
Deferred tax asset	4	4,536	-
Other financial assets	8	140	140
Total Non-Current Assets		55,316	42,708
Total Assets		89,846	72,488
LIABILITIES			
Current Liabilities			
Trade and other payables	13	1,663	4,332
Income tax payable	4	-	2,511
Provisions	15	309	306
Total Current Liabilities		1,972	7,149
Non-Current Liabilities			
Provisions	16	5,036	5,084
Deferred tax liabilities	4	-	680
Financial liabilities	14	8,081	-
Total Non-Current Liabilities		13,117	5,764
Total Liabilities		15,089	12,913
Net Assets		74,757	59,575
EQUITY			
Contributed equity	17	158,857	153,688
Other reserves	18	14,923	13,271
Accumulated losses		(99,023)	(107,384)
Total Equity		74,757	59,575

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

		Consolidated	
		2012	2011
	Notes	$'000	$'000
Cash Flows From Operating Activities			
Receipts from customers		28,689	62,016
Payments to suppliers and employees		(26,396)	(45,275)
Interest received		62	158
Interest paid		(307)	(933)
Proceeds from insurance		575	424
Income tax paid		(3,601)	(5,715)
Net cash from operating activities	24(a)	(978)	10,675
Cash Flows From Investing Activities			
Expenditure on oil and gas properties		(8,257)	(90)
Expenditure on exploration and evaluation assets		(6,440)	(8,242)
Payments for plant and equipment		(192)	(154)
Proceeds from disposal of plant and equipment		1	-
Net cash used in investing activities		(14,888)	(8,486)
Cash Flows From Financing Activities			
Proceeds from issues of equity securities		5,633	-
Payments for equity issue costs		(464)	-
Proceeds from borrowings		9,096	-
Payments for financing costs		(702)	-
Repayment of borrowings		(361)	(5,079)
Net cash from/(used in) financing activities		13,202	(5,079)
Net (decrease)/increase in cash and cash equivalents		(2,664)	(2,890)
Effect of foreign exchange rates		(798)	235
Cash and cash equivalents at beginning of year		21,561	24,216
Cash and cash equivalents at end of year	5	18,099	21,561

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Contributed Equity $'000	Share Based Payment Reserve $'000	Foreign Currency Translation Reserve $'000	Accumulated Losses $'000	Total Equity $'000
Consolidated					
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
At 1 January 2012	153,688	8,045	5,226	(107,384)	59,575
Profit/(loss) for the year	-	-	-	8,361	8,361
Other comprehensive income/(loss)	-	-	929	-	929
Total comprehensive loss for the period, net of tax	-	-	929	8,361	9,290
Transactions with owners in their capacity as owners:					
Issue of share capital	5,633	-	-	-	5,633
Cost of issue of share capital	(464)	-	-	-	(464)
Share based payments	-	723	-	-	723
	5,169	723	-	-	5,892
As at 31 December 2012	158,857	8,768	6,155	(99,023)	74,757

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

This financial report of Nido Petroleum Limited for the year ended 31 December 2012 was authorised for issue in accordance with a resolution of the Directors on 7 March 2013.

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

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 2012, including:

- 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 Compliance with Australian Accounting Standards, the statutory basis or reporting framework for financial statements, whether the financial statements are general purpose or special purpose, audit fees, and Imputation credits. The standard has had no impact on the financial position or performance of the Group.
- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets
  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. The amendments have no impact on the financial position or performance of the Group.

(b) Statement of Compliance

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(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 2012.

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be 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. (b) 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. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: -The change attributable to changes in credit risk are presented in other comprehensive income (OCI); - The remaining change is presented in profit or loss	1 January 2015	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9 - continued	Financial Instruments	If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2015	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2015
AASB 10	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.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2013
AASB 11	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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 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
AASB 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 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	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]	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	Impact on Group financial report presentation only.	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-2 principally amends AASB 7 *Financial Instruments:* Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2013
AASB 2012-3	Amendments to Australian Accounting Standards – *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	The Group has not yet determined the extent of the impact of the amendments, if any.	1 January 2014
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following: • repeat application of AASB 1 is permitted (AASB 1) • clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	1 January 2013	No impact.	1 January 2013
AASB 119	Employee Benefits	The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.	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 1053	*Application of Tiers of Australian Accounting Standards*	This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements. Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11, 2012-1 and 2012-7.	1 July 2013	No impact as Nido will not apply reduced reporting.	1 January 2014

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(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(r).

(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. Estimated 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(v) Valuation of embedded derivative

The debt facility held by Nido Production (Galoc) Pty Ltd (NPG) has two components being the debt component and embedded derivative component. The embedded derivative component relates to an oil price premium fee within the debt facility agreement which specifies a fee to be paid by NPG to Standard Bank plc should the price of oil per barrel increase and hold over defined price ranges for a specified time.

The embedded derivative is carried at its fair value. The value of the embedded derivative component has been determined using a Monte Carlo pricing approach taking into account factors such as underlying commodity reference price, volatility of the commodity, term of the facility and discount rates.

Over the term of the facility, the embedded derivative will be fair valued at each balance date and the movement in the fair value recorded through the income statement.

For comparative purposes, the Group issued a Convertible Note on 1 September 2006 which contained 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.

(vi) Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which losses can be utilised. 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.

The Group has recognised Deferred Tax Assets ('DTA') of $4.53 million. The DTA predominately relates to the write-off of an intercompany loan not considered recoverable by management and considered connected to the trade or business of the Philippine Branches, which is expected to be claimed as a tax deduction against profits of the Nido Production (Galoc) Pty Ltd (Branch). Management has used significant judgement as to determining the deductibility of the write-off of the intercompany loan and has confirmed its judgement through independent legal and taxation advice that it is in accordance with the provisions of the Philippine tax code.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(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.

(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(r).

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

(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.

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 derecognised 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) Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(r) 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.

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.

(s) Share Based Payment Transactions

The Group provides benefits to employees (and Executive 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Managing Director (Former Chief Operating Officer) Sign on and Retention Bonus

As part of the employment contract entered into between Nido Petroleum Limited and the then Chief Operating Officer, now Managing Director, 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 and Managing Director effective from 1 June 2012.

(t) Employee Benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave due 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.

(u) 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 profit or loss 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.

(v) 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.

Sale of crude oil

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.

(w) 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.

(x) 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 profit or loss.

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.

(y) 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 in 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.

(z) 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.

(aa) Earnings per Share

Basic EPS is calculated as net profit / (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 / (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

(bb) 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.

Debt Facility

The debt facility held by Nido Production (Galoc) Pty Ltd (NPG) has two components being the debt component and embedded derivative component. The embedded derivative component relates to an oil price premium fee within the debt facility agreement which specifies a fee to be paid by NPG to Standard Bank plc should the price of oil per barrel increase and hold over defined price ranges for a specified time.

The value of the embedded derivative is carried at its fair value. The value of the embedded derivative component has been determined using a Monte Carlo pricing approach taking into account factors such as underlying commodity reference price, volatility of the commodity, term of the facility and discount rates.

Over the term of the facility, the embedded derivative will be fair valued at each balance date and the movement in the fair value recorded through the income statement.

Over the term of the facility, the carrying amount of the debt component will be accreted to the principal amount using the effective interest rate method.

Convertible Note

For comparative purposes the Convertible Note with Merrill Lynch 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 increased as the present value of the interest coupon payments and redemption amount increased, 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.

(cc) 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.

(dd) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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; and
- 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.

(ee) Derivative financial instrument

The Group uses derivative financial instruments, such as forward commodity contracts, to manage its commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

2. REVENUES

	Consolidated	
	2012	2011
	$'000	$'000
(a) Other Revenue		
Interest received – other parties	72	161
Total Other Revenue	72	161
(a) Other Income		
Insurance proceeds	-	1,013
Gain on disposal of assets	1	6
Other	20	53
Total Other Income	21	1,072

3. EXPENSES

	Consolidated 2012 $'000	Consolidated 2011 $'000
(a) Cost of Sales		
Amortisation of oil and gas properties	4,977	5,266
Other production costs net of inventory movement	16,444	25,458
Total cost of sales	21,421	30,724

Other production costs expense includes SC14C1 Galoc oil field payments for the FPSO of $9,118,000 (2011: $10,313,000). It is impracticable to split non-lease components from the operating lease payments.

	Consolidated 2012 $'000	Consolidated 2011 $'000
(b) Administrative and Other Expenses		
(i) Administrative expenses		
Employee Benefits		
Wages and salaries	4,610	5,181
Defined contribution superannuation expense	377	345
Share based payments expense	723	331
Other employee benefits	226	314
Total employee benefits	5,936	6,171
Office and other expenses		
Office and other expenses	3,023	3,368
Depreciation, amortisation and impairment expenses		
Depreciation of plant and equipment	187	226
Amortisation of oil and gas properties	4,977	5,266
Impairment write-down of exploration assets (note 11)	-	6,993
Total Depreciation, amortisation and impairment	5,164	12,485
Less: amortisation included in cost of sale	(4,977)	(5,266)
Total Depreciation, amortisation and impairment included in administrative expenses	187	7,219
Lease payments		
Operating lease rental	510	483
Total Administrative Expenses	9,656	17,241
(ii) Other		
Abandonment field expenditure	-	3,029
Exploration and evaluation expenditure expensed	334	148
Total other	334	3,177
Total Administrative and Other Expenses	9,990	20,418

3. EXPENSES - CONTINUED

	Consolidated 2012 $'000	Consolidated 2011 $'000
(c) Finance Costs		
(i) Convertible Note finance costs [1]		
Interest expense	-	2,802
(ii) Other finance costs		
Unwind of the effect of discounting on provisions	-	7
Total finance costs	-	2,809

[1] Finance costs incurred in 2011 related primarily to a convertible note that was fully repaid by 30 June 2011.

4. INCOME TAX

(a) Income tax expense

	2012 $'000	2011 $'000
The major components of income tax expense are:		
Current income tax		
Current income tax charge/(benefit)	(1,706)	8,301
Prior year under/(over) provision	1,814	930
Deferred income tax		
Temporary differences originating and reversing	(5,161)	(2,179)
Prior year under/(over) provision	(55)	1,499
Income tax expense/(benefit) reported in income statement	(5,108)	8,551

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

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

	2012 $'000	2011 $'000
Total accounting profit/(loss) before income tax	3,253	12,346
At the Group's statutory income tax rate Australia 30%, Philippines 30% (2011: Australia 30%, Philippines 30%)	976	3,704
Adjustments in respect of current year income tax		
Non-deductible expenses	441	237
Foreign tax on revenue basis	-	43
Non-assessable income	(8,352)	(2,785)
Prior year over/(under)-provision	1,759	2,429
Deferred tax assets not recognised	68	4,923
Income tax expense/(benefit) for the year	(5,108)	8,551
Aggregate income tax/(benefit) is attributed to:		
Continuing operations	(5,108)	8,551

4 INCOME TAX - CONTINUED

(c) Deferred tax assets and liabilities

	Balance Sheet 2012 $'000	Balance Sheet 2011 $'000	Profit or Loss 2012 $'000	Profit or Loss 2011 $'000
Consolidated				
(i) Deferred tax liabilities				
Convertible Note	-	-	-	1,905
Oil and Gas Assets	2,892	2,166	(726)	(2,166)
Financial liabilities	184	-	(184)	
Unrealised foreign exchange movement	50	-	(50)	
Set-off of deferred tax assets	(3,126)	(1,486)	1,640	(419)
	-	680	680	(680)
(ii) Deferred tax assets				
Provisions	143	131	(12)	(37)
Other	158	229	71	(141)
Rehabilitation	1,458	1,486	28	1,300
Exploration Assets	3,551	3,511	(40)	(2,098)
Oil and Gas Assets	8,917	8,917	-	-
Unrealised foreign exchange movement	651	-	(651)	
Revenue tax losses	28,907	23,269	(5,638)	1,298
Set-off against deferred tax liabilities	(3,126)	(1,486)	1640	(419)
Unrecognised deferred tax asset	(36,123)	(36,057)	66	97
	4,536	-	(4,536)	-

The deferred tax assets not brought to account for the 2012 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.

Australian revenue tax losses of $48.5 million (2011: $44.5 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 $47.5 million (2011: $33.1 million) are available indefinitely for offset against future Philippine taxable profits subject to continuing to meet relevant statutory tests.

The Deferred Tax Asset includes the write off of an intercompany loan not considered recoverable by management and considered connected to the trade or business of the Philippine Branches, which is expected to be claimed as a deduction against profits of the Nido Production (Galoc) Pty Ltd (Branch). Management has used significant judgement as to determining the deductibility of the write-off of the intercompany loan and has confirmed its judgement through independent legal and taxation advice that it is in accordance with the provisions of the Philippine tax code.

(d) No Tax Consolidated Group

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

	Consolidated	
	2012	2011
	$'000	$'000

5. CASH AND CASH EQUIVALENTS

Cash at bank and in hand [1]	18,045	20,948
Short term deposits	54	613
	18,099	21,561

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.

[1] Cash at bank includes $16.3 million in funds held in accounts with Standard Bank plc. Usage of these funds is governed by the terms and conditions of the senior secured facility agreement.

6. RECEIVABLES

Trade and Other Receivables - Current		
Receivables from Joint Venture partner	494	717
Crude oil receivables	8,294	1,067
Deposits held by Joint Ventures	3,006	2,770
GST receivables	74	37
Other	2,008	2,373
	13,876	6,964

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
2012	13,876	13,802	74
2011	6,964	6,927	37

Current receivables contain amounts past due of $74,452, which have been received subsequent to year end. No impairment of assets was required as at 31 December 2012 (2011: Nil).

7. INVENTORIES

Casing, pipe and drilling inventory	1,760	1,227
Oil in storage	762	-
Total inventories at lower of cost and net realisable value	2,522	1,227

There was no impairment of inventories during the year (2011: nil).

8. OTHER FINANCIAL ASSETS

Current:		
Receivables - security deposits	33	28
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 29.

	Consolidated 2012 $'000	Consolidated 2011 $'000

9. PLANT AND EQUIPMENT

	2012 $'000	2011 $'000
Plant and equipment, at cost	2,300	2,109
Accumulated depreciation	(1,908)	(1,731)
	392	378
Reconciliation		
As at 1 January	378	420
Additions	212	186
Disposals	(10)	(1)
Depreciation expense	(187)	(226)
Currency translation differences	(1)	(1)
Net carrying value	392	378

10. OIL AND GAS PROPERTIES

	2012 $'000	2011 $'000
Production phase, at cost	66,411	66,630
Accumulated depreciation and amortisation	(26,015)	(21,038)
Accumulated impairment losses	(31,747)	(31,747)
	8,649	13,845
Development phase, at cost	11,012	158
	19,661	14,003
Reconciliations		
Production phase – net		
As at 1 January	13,845	19,220
Amortisation of oil and gas properties	(4,977)	(5,266)
Currency translation differences	(219)	(109)
Net carrying value	8,649	13,845
Development phase – net		
As at 1 January	158	-
Additions	8,959	158
Capitalisation of borrowing costs	875	-
Transfer from exploration and evaluation(1)	1,004	-
Currency translation differences	16	-
Net carrying value	11,012	158

Oil and gas properties capitalised in the production phase as at 31 December 2012 comprised only of the SC 14C1 Galoc oil field.

1 The transfer from Exploration and Evaluation into Oil and Gas Property Development relates specifically to the SC 14C1 Galoc oil field Phase II development. FID was achieved by the Joint Venture in September 2012.

11. EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	2012	2011
	$'000	$'000
Exploration and evaluation expenditure, at cost	30,587	28,187
Reconciliation		
As at 1 January	28,187	25,761
Additions	3,943	9,421
Transfer to oil and gas properties	(1,004)	-
Impairment write-down of exploration assets	-	(6,993)
Currency translation differences	(539)	(2)
Net carrying value	30,587	28,187

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 in the year ended 31 December 2011 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.

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

	Parent Company	
	2012	2011
	$'000	$'000
Current assets	1,684	3,071
Non-current assets	90,115	84,795
Current liabilities	(652)	(720)
Non-current liabilities	(177)	(131)
Net assets	90,970	87,015
Contributed equity	158,857	153,688
Share based payments reserve	8,769	8,046
Accumulated losses	(76,656)	(74,719)
Total equity	90,970	87,015
Profit/(loss) of the parent entity for the year	(1,937)	(8,745)
Total comprehensive income/(loss) of the parent entity	(1,937)	(8,745)

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:

Within one year	576	1,009

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 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.

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

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

	Consolidated	
	2012 $'000	2011 $'000
Trade creditors	1,603	4,261
Other creditors	60	71
	1,663	4,332

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.

(iii) Trade and other payables are unsecured and usually paid within 60 days of recognition.

14. FINANCIAL LIABILITIES

	2012 $'000	2011 $'000
Non-Current		
Financial liability measured at amortised cost	7,937	-
Derivative financial instrument - at fair value	144	-
	8,081	-

The debt component of the debt facility is recorded at amortised cost.

(a) Nature and Fair Value

On 19 July 2012, Nido's wholly owned subsidiary, Nido Production (Galoc) Pty Ltd signed a senior debt facility with Standard Bank plc for up to a maximum of US$30 million for a term of three years.

The principal terms and conditions of the debt facility are as follows:-

- The facility is a reserve-based lending facility and is available in two tranches;
- First tranche: up to a maximum of US$15 million available pre Galoc Phase II development FID, subject to conditions precedent and other terms of the facility;
- Second tranche: increases the facility up to a maximum of US$30 million available post FID, subject to approvals and other terms of the facility;
- Maturity date – 31 December 2015 (3 year term) and amortising on a quarterly basis in accordance with the facility available amount;
- Interest payable is based on US LIBOR plus fixed margin interest rate;
- The facility is secured by a first charge over the assets of Nido Production (Galoc) Pty Ltd; and
- On 2 August 2012, the initial drawdown of the facility was $9.1 million (US$9.4 million).

14. FINANCIAL LIABILITIES - CONTINUED

The debt facility held by Nido Production (Galoc) Pty Ltd (NPG) has two components being the debt component and embedded derivative component. The embedded derivative component relates to an oil price premium fee within the debt facility agreement which specifies a fee to be paid by NPG to Standard Bank plc should the price of oil per barrel increase and hold over defined price ranges for a specified time.

The carrying value of the embedded derivative is carried at its fair value. The value of the embedded derivative component has been determined using a Monte Carlo pricing approach taking into account factors such as underlying commodity reference price, volatility of the commodity, term of the facility and discount rates.

This resulted in the initial allocation of $0.15m (US$0.16m) to the embedded derivative component and an allocation of $8.32m (US$8.59m) to the debt component.

Over the term of the facility, the embedded derivative will be fair valued at each balance date and the movement in the fair value recorded through the income statement.

Over the term of the facility, the carrying amount of the debt component will be accreted to the US$9.4m principal amount using the effective interest rate method.

(b) Risk exposures

Details regarding foreign exchange, interest rate risk exposure and liquidity risk are disclosed in Note 29.

15. CURRENT PROVISIONS

	Consolidated	
	2012	2011
	$'000	$'000
Employee benefits	309	306
Restoration	-	-
	309	306
Movements in restoration provision		
As at 1 January	-	4,334
Arising during the year	-	(4,273)
Currency translation difference	-	(61)
Net carrying value	-	-

Nature and timing of the restoration provision:

In January 2011, the abandonment of the Tindalo oil field in SC 54A was completed thus the utilisation 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(r).

16. NON-CURRENT PROVISIONS

	Consolidated	
	2012	2011
	$'000	$'000
Employee benefits	177	131
Restoration	4,859	4,953
	5,036	5,084
Movements in non-current restoration provision		
As at 1 January	4,953	4,951
Unwinding and discount rate adjustment	-	7
Currency translation difference	(94)	(5)
Net carrying value	4,859	4,953

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 (which is expected to be abandoned in around 2020) and Nido and Matinloc oil fields in SC14 A and SC14 B (which are expected to be abandoned 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 decommissioning 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(r).

	Consolidated	
	2012	2011
	$'000	$'000
17. CONTRIBUTED EQUITY		
Issued and fully paid ordinary shares	158,857	153,688

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

	2012		2011	
	Number of Shares	$'000	Number of Shares	$'000
Beginning of the year	1,389,163,151	153,688	1,340,630,321	149,805
Issued during the year:				
• conversion of convertible notes (Note 16)	-	-	48,532,830	3,883
• issues of new shares(i)	208,624,472	5,633	-	-
• issue of new shares under employment contract(ii)	3,333,334	-	-	-
• less transaction costs	-	(464)	-	-
End of the year	1,601,120,957	158,857	1,389,163,151	153,688

(i) On 30 November 2012, Nido completed a placement of 430,265,594 shares. The placement was split into unconditional and conditional tranches. The unconditional tranche of 208,624,472 shares at 2.7 cents each was allotted on 7 December 2012. The conditional tranche of 221,641,122 shares at 2.7 cents was subject to Nido shareholder approval and this was obtained subsequent to year end at an Extraordinary General Meeting held on 25 January 2013. The Directors of Nido Petroleum Ltd participated in the conditional tranche of the placement and were issued a total of 8,703,704 ordinary fully paid shares at 2.7 cents each.

(ii) On 29 June 2012, 1,666,667 ordinary shares (tranche #1) and on 31 December 2012 1,666,667 ordinary shares (tranche #2) totalling 3,333,334 ordinary shares were issued to Mr Byrne, Managing Director pursuant to a Sign-on and Retention Bonus which forms part of the employment contract entered into between Nido Petroleum Limited and Mr Byrne.

Under the employment contract, Mr Byrne is entitled to the grant of a total of 10,000,000 fully paid ordinary shares. The shares are to be issued in six (6) equal tranches at six (6) month intervals commencing six (6) months after the commencement of employment on 29 December 2011.

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.

(iii) There were no unlisted options or performance rights exercised for the period ended 31 December 2012 (2011: none).

(b) Performance rights on issue

The total number performance rights on issue as at 31 December 2012 is 29,320,104 performance rights (2011: 11,637,971 performance rights). Refer to Note 22 for further details including information on the Sign On and Retention Bonus share entitlement.

17. CONTRIBUTED EQUITY - CONTINUED

(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 2012 and 2011 were as follows:

	Consolidated	
	2012	2011
	$'000	$'000
Total payables and borrowings*	9,744	4,332
Less cash and cash equivalents	(18,099)	(21,561)
Net debt	-	-
Total equity	74,757	59,575
Total capital	74,757	59,575

* Includes interest bearing loans and borrowings and trade and other payables. Trade and other payables for the group as at 31 December 2012 is $1,663,000 (2011: $4,332,000).

Gearing ratio **

** Gearing excluding trade and other payables for the group is nil (2011: nil).

18. RESERVES

	2012 $'000	2011 $'000
Share-based payment reserve	8,768	8,045
Foreign currency translation reserve	6,155	5,226
	14,923	13,271

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.

	2012 $'000	2011 $'000
Movement in Share-based payment reserve:		
As at 1 January	8,045	7,714
Share based payments	723	331
	8,768	8,045
Movement in Foreign currency translation reserve:		
As at 1 January	5,226	5,251
Translation of foreign subsidiaries	929	(25)
	6,155	5,226

19. EARNINGS PER SHARE

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

(a) Earnings used in calculating earnings per share

	Consolidated	
	2012	2011
	$'000	$'000
Profit/(loss) attributable to ordinary equity holders of the Company used in calculating:		
- basic profit/(loss) per share	8,361	3,795
- diluted profit/(loss) per share	8,361	3,795

(b) Weighted average number of shares

	2012 #	2011 #
Weighted average number of ordinary shares used in the calculation of the basic earnings per share.	1,404,868,821	1,378,957,967
Adjustment for calculation of diluted earnings per share		
- options and performance shares	9,155,251	82,192
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share	1,414,024,072	1,379,040,159

There have been 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. The transactions have been detailed in Note 30.

(c) Information on the classification of securities

(i) Performance Rights

Performance rights granted to employees (including key management personnel) as described in Note 22 are considered to be potential ordinary shares. In 2012 these were excluded in the determination of diluted earnings per share as they were considered to be anti-dilutive for that period.

20. DIVIDENDS PAID AND PROPOSED

No dividend has been paid or declared during the 2012 and 2011 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 Managing Director and his management 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 Managing Director and his management 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 and 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)
- Corporate costs

21. OPERATING SEGMENTS - CONTINUED

The following table presents revenue and profit information for reportable segments for the years ended 31 December 2012 and 31 December 2011.

Operating Segments

	Production and Development $'000	Exploration and Evaluation $'000	Total Operations $'000
Year ended 31 December 2012			
Revenue			
Revenue from sale of crude oil – external customers	36,294	-	36,294
Total segment revenue			36,294
Reconciliation of segment revenue to total revenue			
Other revenue			72
Total revenue			36,366
Result			
Total segment result	19,314	334	19,648
Segment result includes:			
Amortisation	(4,977)	-	(4,977)
Impairment of exploration and evaluation expenditure	-	-	-
Abandonment field expenditure	-	-	-
Income tax benefit	5,108	-	5,108
Reconciliation of segment result after tax to net profit after tax			
Fair value gain/(loss) on embedded derivative			10
Finance costs			-
Foreign currency losses			(1,734)
Corporate costs			(9,656)
Other revenue and income			93
Net profit after tax			8,361
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

21. OPERATING SEGMENTS - CONTINUED

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 four different buyers who each on a proportionate basis equated to greater than 10% of total sales of crude oil for the period.

Customer	2012 Revenue received from Sale of Crude Oil $'000	2011 Revenue received from Sale of Crude Oil $'000
# 1	16,843	33,752
# 2	9,087	-
# 3	8,016	16,820
# 4	2,348	8,167
# 5	-	2,946
Other	-	2,074
Total	36,294	63,759

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	2012 Revenue received from Sale of Crude Oil $'000	2011 Revenue received from Sale of Crude Oil $'000
South Korea	33,946	53,518
Philippines	2,348	2,075
Thailand	-	8,166
Total Revenue	36,294	63,759

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

21. OPERATING SEGMENTS - CONTINUED

2012

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 2012	50,162	32,693	82,855
Reconciliation of segment assets to total assets			
Unallocated other assets			6,991
Total Assets			89,846
Segment Operating Liabilities			
31 December 2012	(13,947)	(140)	(14,087)
Reconciliation of segment liabilities to total liabilities			
Unallocated liabilities – other			(1,002)
Total Liabilities			(15,089)
Segment Capital Expenditure			
31 December 2012	11,012	3,943	14,955
Reconciliation of capital expenditure to total capital expenditure			
Unallocated additions			212
Total Capital Expenditure			**15,167**

Assets – 2012

For the year ended 31 December 2012 operating assets for the Production and Development segment amounting to $50,162,000 consisted primarily of oil properties $19,661,000, trade and other receivables $12,562,000 and cash and cash equivalents $17,176,000 and crude oil inventory $763,000.

Operating assets for the Exploration and Evaluation segment amounting to $32,693,000 consisted primarily of exploration and evaluation assets $30,587,000, trade and other receivables of $347,000 and long lead item inventory $1,759,000.

Unallocated other assets amounting to $2,422,000 consisted primarily of cash and cash equivalents $923,000 and plant and equipment $392,000, trade and other receivables $967,000 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 2012 is 99% within the Philippines and 1% within Australia.

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	(10,272)	(2,491)	(12,763)
31 December 2011			
Reconciliation of segment liabilities to total liabilities			
Unallocated liabilities – other			(150)
Total Liabilities			12,913
Segment Capital Expenditure	158	9,421	9,579
31 December 2011			
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 of $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.

22. SHARE-BASED PAYMENTS

(a) Recognised Share Based Payments Expenses

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

	Consolidated	
	2012	2011
	$'000	$'000
Share based payments expensed	723	331

(b) Share-based Plans

(i) 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.

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

22. SHARE-BASED PAYMENTS – CONTINUED

The peer group comprises the following companies: Woodside Petroleum Limited, Otto Energy Limited, Kairiki Energy Limited, AWE Limited, Horizon Oil Limited, Karoon Gas Limited, Victoria Petroleum NL, 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.

  - 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.

  - 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.

(ii) Managing Director (Former Chief Operating Officer) Sign On and Retention Bonus Share Entitlement

As part of the employment contract entered into between Nido Petroleum Limited and the former Chief Operating Officer, now Managing Director, Mr Philip Byrne*, Nido will issue 10,000,000 fully paid ordinary shares as a sign-on and retention bonus.

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 are for 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 and Managing Director effective 1 June 2012.

22. SHARE-BASED PAYMENTS – CONTINUED

(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 in prior years to employees other than to key management personnel which have been disclosed below.

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	-	-	4,750,000	0.47
Expired during the year	-	-	(4,750,000)	0.47
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-

The outstanding balance as at 31 December 2012 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:

	2012 No.	2011 No.
Outstanding at the beginning of the year	6,692,028	3,115,867
Granted during the year	12,748,525	5,449,463
Forfeited / cancelled during the year	(5,135,753)	(1,873,302)
Exercised during the year	-	-
Outstanding at the end of the year	14,304,800	6,692,028
Exercisable at the end of the year	-	-

The outstanding balance as at 31 December 2012 is represented by the following performance shares, exercisable upon meeting the performance terms and conditions:

- Issued on 5 April 2012 - Outstanding were 9,568,575 performance rights with no exercise price, and an expiry date of 5 April 2015.
- Issued on 28 March 2011 - Outstanding were 3,077,536 performance rights with no exercise price, and an expiry date of 28 March 2014.
- Issued on 30 April 2010 - Outstanding were 1,658,689 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 performance rights outstanding at the end of the year is 1.8 years (2011: 1.9 years).

(iii) Weighted average fair value of performance rights granted

The weighted average fair value for the performance rights outstanding at the end of the year is $0.06 (2011: $0.10).

(iv) Range of exercise prices

The Performance Rights have no exercise price.

(v) Valuation models

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.

2012

Grant date	5/4/2012
Dividend yield (%)	-
Expected volatility (%)	80-90%
Risk-free interest rate (%)	3.43%
Expected life of rights (years)	3
Exercise price ($)	Nil
Share price at grant date ($)	0.056

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.

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 not necessarily be the actual outcome.

22. SHARE-BASED PAYMENTS – CONTINUED

(d) Executive Director and Executive performance rights and share sign-on and retention bonus

In addition to the performance rights disclosed in (b) above, the Company has issued performance rights to Executive Directors and Executives from time to time.

Vesting conditions for the performance rights granted during the year to Executive 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 (now Managing Director), 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 the 8 October 2011. 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 $277,131 share based payments expense has been recognised for the year ended 31 December 2012 in accordance with Accounting Standard AASB 2 Share Based Payments.

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

(i) Options

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

Executive Directors and Executives	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	-	-	12,000,000	0.41
Granted during the year	-	-	-	-
Cancelled during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	(12,000,000)	0.41
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-

The outstanding balance as at 31 December 2012 is nil. No options were issued in 2012 or 2011.

(ii) Performance Rights

The following table illustrates the number (No.) of performance rights issued to Executive Directors and Executives:

Executive Directors and Executives	2012 No.	2011 No.
Outstanding at the beginning of the year	4,945,943	3,911,871
Granted during the year	10,069,361	5,246,476
Forfeited / cancelled during the year*	-	(4,212,404)
Exercised during the year	-	-
Outstanding at the end of the year	15,015,304	4,945,943
Exercisable at the end of the year	-	-

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

22. SHARE-BASED PAYMENTS – CONTINUED

The outstanding balance as at 31 December 2012 is represented by the following performance rights, exercisable upon meeting the performance terms and conditions:

- Issued on 1 June 2012 were 3,285,446 performance rights with no exercise price, and an expiry date of 1 June 2015.
- Issued on 5 April 2012 were 6,783,915 performance rights with no exercise price, and an expiry date of 5 April 2015.
- Issued on 28 March 2011 were 2,870,339 performance rights with no exercise price, and an expiry date of 28 March 2014.
- 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 performance rights issued to Executive Directors and Executives

The weighted average remaining contractual life for performance rights outstanding at the end of the year is 1.8 years (2011: 1.9 years).

(iv) Weighted average fair value of performance rights granted to Executive Directors and Executives

The weighted average fair value for the performance rights outstanding at the end of the year is $0.06 (2011: $0.10).

(v) Range of exercise price of performance rights issued to Executive Directors and Executives

The Performance Rights have no exercise price.

(vi) Valuation models performance rights issued to Executive Directors and Executives

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.

2012

Grant date	5/4/2012	1/6/2012
Dividend yield (%)	-	-
Expected volatility (%)	80-90%	80-90%
Risk-free interest rate (%)	3.43%	2.03%
Expected life of rights (years)	3	3
Exercise price ($)	-	-
Share price at grant date ($)	0.056	0.041

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.

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.

	Consolidated 2012 $	Consolidated 2011 $

23. AUDITOR'S REMUNERATION

	2012 $	2011 $
The auditor of Nido Petroleum Limited is Ernst & Young.		
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	112,785	116,055
Other services in relation to the entity and any other entity in the consolidated entity (tax and related services)	21,251	38,800
	134,036	154,855
Amounts received as due and receivable by related practices of Ernst & Young (Australia) for:		
Audit services	-	-
Tax and related services	-	-
	-	-
	134,036	154,855

24. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from ordinary activities:

	2012 $	2011 $
Profit/(loss) from ordinary activities after income tax	8,361	3,795
Adjustments for:		
Depreciation of plant and equipment	187	226
Amortisation of oil and gas properties	4,977	5,266
Unwind of the effect of discounting on provisions	-	7
Accretion expense	-	1,683
Fair value movement on embedded derivative	10	(1,775)
Net exchange (gains)/losses	1,734	470
Share based payments	723	331
(Gain)/loss on disposal of plant and equipment	(1)	(6)
Exploration expenditure expensed	334	148
Impairment write-down of exploration assets	-	6,993
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(8,106)	7,609
(Increase)/decrease in inventories	(763)	4,576
(Increase)/decrease in other assets	(4,540)	3,135
Increase/(decrease) in payables	(657)	(19,788)
Increase/(decrease) in other liabilities	(680)	-
Increase/(decrease) in provisions	(2,557)	(1,995)
Net cash from/(used in) operating activities	(978)	10,675

(b) Non-cash financing and investing activities:

	2012 $	2011 $
Proceeds from issues of equity securities from conversion of bonds	-	3,883
Repayment of borrowings	-	(3,883)

During the previous year, (year ended 31 December 2011), the Company reduced underlying debt outstanding to the Merrill Lynch Convertible Note by US$3.98 million from the conversion of bonds resulting in the issuance of 48,532,830 ordinary shares. No cash was directly received or paid by the Company.

25. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Compensation of Key Management Personnel

	Consolidated 2012 $	Consolidated 2011 $
Short-term employment benefits	2,301,087	2,868,770
Post-employment benefits	190,253	211,131
Share based payment	516,510	164,825
	3,007,850	3,244,726

(b) Option Holdings of Key Management Personnel

2012	Balance at 1 January	Granted as remuneration	Options exercised	Cancelled / Forfeited / Expired	Change due to appointment / (resignation)	Balance at 31 December	Vested and Exercisable	Non Vested
Directors								
None								
2011								
Directors								
W Bloking	5,000,000	-	-	(5,000,000)	-	-	-	-
J de Dios	7,000,000	-	-	(7,000,000)	-	-	-	-
	12,000,000	-	-	(12,000,000)	-	-	-	-

(c) Rights Holdings of Key Management Personnel

2012	Balance at 1 January	Granted as remuneration	Rights exercised [5]	Cancelled/ Forfeited / Expired	Change due to appointment / (resignation)	Balance at 31 December	Vested [3]	Non Vested
Directors								
P Byrne [1]	10,000,000	3,285,446	(3,333,334)	-	-	9,952,112	1,666,667	8,285,445
Executives								
J Pattillo	2,168,381	2,871,999	-	-	-	5,040,380	-	5,040,380
J Newman	1,258,650	1,809,230	-	-	-	3,067,880	-	3,067,880
A Gilbert	1,518,912	2,102,686	-	-	-	3,621,598	-	3,621,598
	14,945,943	10,069,361	(3,333,334)	-	-	21,681,970	1,666,667	20,015,303
2011								
Directors								
J de Dios [4]	1,047,535	1,347,047	-	(2,394,582)	-	-	-	-
Executives								
P Byrne [2]	-	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

1 Mr Byrne was appointed Managing Director on 1 June 2012.

2 These are not performance rights, but share rights based on Mr Byrne's Sign-On and Retention Bonus.

3 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 end 31 December 2012 and 31 December 2011 respectively.

4 Please note that the performance rights of the former CEO are for the purposes of this table regarded as being forfeited as at the date of resignation (19 October 2011).Mr de Dios ceased employment with the Company on 20 January 2012.

5 The rights exercised for Mr Byrne relate to share rights based on his Sign-On and Retention Bonus for the year ended 31 December 2012.

25. KEY MANAGEMENT PERSONNEL DISCLOSURES – CONTINUED

(d) Shareholdings of Key Management Personnel

2012	Balance at 1 January	On exercise of share rights / performance rights	Change due to appointment / (resignation)	Net change other	Balance at 31 December
Directors					
W Bloking	2,500,000	-	-	-	42,500,000
P Byrne	-	3,333,334	-	-	3,333,334
A Edwards	470,000	-	-	-	470,000
E Manalac	-	-	-	-	-
M Ollis	-	-	-	-	-
D Whitby	11,893,524	-	(11,893,524)	-	-
J de Dios	1,350,000	-	(1,350,000)	-	-
Executives					
A Gilbert	400,000	-	-	-	400,000
	16,613,524	3,333,334	(13,243,524)	-	6,703,334

2011					
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)	-	-
	24,207,500	-	(3,770,000)	(3,823,976)	16,613,524

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 $19,049 (2011: $63,213) in consultancy fees. At the end of the financial year nil was payable (2011: nil);

(ii) Vital Holdings Limited, an entity controlled by V Pérez, received no payment in consultancy fees (2011: $39,000). At the end of the financial year nil was payable (2011: nil);

(iii) Australia Asia Energy Pty Ltd, an entity controlled by W Bloking, received no payment in consultancy fees (2011: $75,000). At the end of the financial year nil was payable (2011: nil); and

(iv) Park Brown International Pty Ltd, a related entity to W Bloking received no payment in fees (2011: $84,000). At the end of the financial year nil was payable (2011: 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	
	2012	2011
	$'000	$'000
Within one year	10,476	10,894
More than one year but not later than five years	-	5,927
	10,476	16,821

(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	35,833	4,601

(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	11,685	8,932
More than one year but not later than five years	1,238	1,441
	12,923	10,373

(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	576	1,009

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 and are not included in the Directors' or Key Management Personnel Remuneration.

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%
SC 58	Philippines	Oil and gas exploration	50%(1)
SC 63	Philippines	Oil and gas exploration	50%

(1) 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	
	2012	2011
	$'000	$'000
Current assets		
Cash and cash equivalents	17,175	8,525
Trade and other receivables	13,177	6,198
Inventories	2,522	1,227
Total current assets	32,874	15,950
Non-current assets		
Oil and gas properties	19,661	14,003
Exploration and evaluation	30,587	28,187
Deferred tax asset	4,536	-
Total non-current assets	54,784	42,190
Total assets	87,658	58,140
Current liabilities		
Trade and other payables	1,992	3,464
Income tax payable	-	2,511
Total current liabilities	1,992	5,975
Non-current liabilities		
Provisions	4,859	4,953
Deferred tax liability	-	680
Financial liabilities	8,081	-
Total non-current liabilities	12,940	5,633
Total liabilities	14,932	11,608
Net assets	72,726	46,532

27. INTERESTS IN JOINT VENTURES - CONTINUED

(c) Share of Joint Venture operation's profit or loss

	Consolidated	
	2012	2011
	$'000	$'000
Revenue	36,294	63,759
Cost of sales	(21,421)	(30,724)
Impairment of exploration & evaluation expenditure	-	(6,993)
Abandonment field expenditure	-	(3,029)
Profit/(loss) before tax	14,873	23,013
Income tax expense	5,108	(8,551)
Net profit/(loss)	19,981	14,462

(d) Commitments relating to Joint Venture

Capital expenditure commitments and contingent liabilities in respect of the Joint Venture are disclosed in Notes 26 and 28, respectively where applicable.

28. GROUP ENTITIES

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	
			2012%	2011%
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 [1]	British Virgin Islands	Ordinary	100	100
Nido Production (Galoc) Pty Ltd [2]	British Virgin Islands	Ordinary	100	100
Nido Production (Holding) Pty Ltd [3]	British Virgin Islands	Ordinary	100	100

[1] Control is via Nido Petroleum (BVI) No. 1 Pty Ltd
[2] Control is via Nido Production (Holding) Pty Ltd
[3] 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. 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 is required to secure a US$3M performance bond in favour of the Department of Energy to guarantee its drilling commitment for Sub Phase 3 under Service Contract 58. Nido Petroleum Philippines Pty Ltd is also due to secure a US$3M performance bond in favour of PNOC-EC, in replacement of the previous performance bond which lapsed on 1 August 2012.

(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 2012, the total amount that would be payable was $ 576,250 (2011: $1,008,798).

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, short-term deposits and interest-bearing loans.

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 and long term debt obligations with an interest rate which is based on a variable US Libor plus fixed margin interest rate.

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	
	2012	2011
	$'000	$'000
Financial Assets:		
Cash and cash equivalents	18,099	21,561
Trade and other receivables	1,750	1,486
Financial Liabilities:		
Financial liabilities	8,081	-
Net exposure	11,768	23,047

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date. The sensitivity is based on reasonably possible changes, over a financial year, using an observed range of historical RBA ($AUD) interest rates and US London Inter-Bank Offer Rate (LIBOR) over the last year. Financial assets which are denominated in AUD include cash and cash equivalents ($0.60 million) and trade and other receivables ($0.30 million) while USD denominated balance include cash and cash equivalents ($17.50 million), trade and other receivables ($1.45 million) and financial liabilities ($8.1 million).

At 31 December 2012, 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)		
+ 1.0% (2011: +0.5%)	154	80
- 1.0% (2011: - 0.5%)	(154)	(80)
Equity - higher / (lower)		
+ 1.0% (2011: +0.5%)	-	-
- 1.0% (2011: - 0.5%)	-	-

The 1.0% sensitivity is based on reasonably possible changes, over a financial year, using an observed range of historical London Inter-Bank Offer Rate (LIBOR) ($US) movements over the last year. At 31 December 2012, if the interest rate (US Libor plus fixed margin interest rate) applied to the long term borrowings had moved, as illustrated in the table below, 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)		
+ 1.0% (2011: nil)	38	-
- 1.0% (2011: nil)	(38)	-
Equity - higher / (lower)		
+ 1.0% (2011: nil)	-	-
- 1.0% (2011: nil)	-	-

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 US$, the Group's balance sheet can be affected significantly by movements in the US$/A$ 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 US$ interest-bearing loan is subject to movements in the AUD$/US$ exchange rates, and ultimately affect the value of the Loan reported in the balance sheet and give rise to foreign exchange gains or losses through profit or loss.

The US$ interest-bearing loan is used to meet foreign currency commitments, primarily in relation to the Galoc oil field development, which limits any cash flow volatility from foreign exchange rate changes to the cost of the development.

At 31 December 2012, the Group had the following US$ / A$ exposure that is not designated in cash flow hedges:

	Consolidated	
	2012	2011
	$'000	$'000
Financial Assets:		
Non-Current Receivables[1]	114,361	109,073
Net exposure	114,361	109,073

[1] 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 (2011: 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 US dollar, for the preceding year.

At 31 December 2012, 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 % (2011: +10%)	(10,396)	(9,916)
AUD/USD – 10 % (2011: -10%)	12,707	12,119
Equity - higher / (lower)		
AUD/USD + 10 % (2011: -10%)	-	-
AUD/USD – 10 % (2011: -10%)	-	-

The movements in 2012 profit and equity vary from 2011 due to the increase in subsidiary loans and long term borrowings.

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 US dollars. The Group may enter into commodity crude oil price swap and option contracts to manage its commodity price risk.

The senior debt facility entered into by Nido Production (Galoc) Pty Ltd (NPG) with Standard Bank plc on 19 July 2012 has two components being the debt component and embedded derivative component. The embedded derivative component relates to an oil price premium fee within the debt facility agreement which specifies a fee to be paid by NPG to Standard Bank plc should the price of oil per barrel increase and hold over defined price ranges for a specified time. Refer to Note 14 for further details of the nature and extent of exposure.

The table below summarises the impact on profit before tax in commodity price on the fair value of the derivative financial instrument. The analysis is based on the assumption that crude oil moves 10% resulting in a change of US$11/bbl for the year ending 31 December 2012, with all other variables held constant.

Judgements of reasonably possible movements:

	Consolidated	
	2012	2011
	$'000	$'000
Post tax profit - higher / (lower)		
Increase US$11/bbl (2011: n/a)	(54)	-
Decrease US$11/bbl (2011: n/a)	54	-
Equity - higher / (lower)		
Increase nil (2011: n/a)	-	-
Decrease nil (2011: n/a)	-	-

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 three 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 2012, 100% (2011: 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 2012 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.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

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 2012. Cash flows for financial assets and liabilities without fixed amount or timing are based on conditions existing at 31 December 2012.

The remaining contractual maturities of the Group's financial liabilities are:

	Consolidated	
	2012	2011
	$'000	$'000
6 months or less	2,376	4,332
6-12 months	1,209	-
1-5 years	6,159	-
	9,744	4,332

The Group manages its liquidity risk by monitoring on a monthly basis expected cash inflows and outflows.

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 2012				Year ended 31 December 2011			
	Quoted market price	Valuation with observable market data	Valuation with no observable market data	Total	Quoted market price	Valuation with observable market data	Valuation with no observable market data	Total
	(Level 1)	(Level 2)	(Level 3)		(Level 1)	(Level 2)	(Level 3)	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated								
Financial Liabilities								
Derivative instruments								
Oil Price Premium	-	144	-	144	-	-	-	-
	-	144	-	144	-	-	-	-

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:

1. The SPP offer period closed on 4 January 2013 with gross proceeds raised of $2.257 million and a total of 83,611,262 shares issued.
2. On 25 January 2013 the Company held an EGM which sought approval in relation to the refreshment of placement capacity following the issue of shares in December 2012, the approval of the conditional placement, the issue of shares to the Company's Directors as part of the conditional placement and the approval of the shortfall from the SPP ($3.743 million). All resolutions were approved at the meeting.
3. On 31 January 2013, the Company announced that Credit Suisse AG had joined the senior secured debt facility and that the second tranche of the debt facility had been approved up to a maximum sum of US$30 million.
4. On 27 February 2013 the Company placed the $3.743 million SPP shortfall.

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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 2012, 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 basis 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 directors' report.

RK:MJ:NIDO:019

INDEPENDENT AUDITOR'S REPORT

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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 2012 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 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Robert A Kirkby

Partner
Perth
19 March 2013

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 15 March 2013.

1. SUBSTANTIAL SHAREHOLDERS

The names of the substantial shareholders and the number of shares to which they are entitled are, pursuant to notices issued by those entities to the Australian Stock Exchange Limited:

Name	Number of Shares	Percentage
Petroleum International Investment Corporation	406,951,875	19.90%

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	240	44,323
1,001 – 5,000	627	2,127,976
5,001 – 10,000	755	6,390,384
10,001 – 100,000	3,216	142,658,434
100,001 and over	1,845	1,893,763,184
	6,683	2,044,984,301

(b) The number of shareholders with less than a marketable parcel is 2172.

(c) Each ordinary share entitles the holder to one vote.

TWENTY LARGEST SHAREHOLDERS

	As at 15 March 2013	Total Units	% Issued Capital
1	CITICORP NOMINEES PTY LIMITED	470,764,812	23.02
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	209,883,194	10.26
3	ESCOT FINANCE LTD	48,400,000	2.37
4	PETROLEUM INTERNATIONAL INVESTMENT CORPORATION	48,327,394	2.36
5	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	27,374,337	1.34
6	NEFCO NOMINEES PTY LTD	24,268,929	1.19
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	22,682,844	1.11
8	MONEX BOOM SECURITIES (HK) LTD <CLIENTS ACCOUNT>	17,850,182	0.87
9	PACKWOOD CAPITAL SA	17,000,000	0.83
10	NATIONAL NOMINEES LIMITED	14,801,071	0.72
11	DALY FINANCE CORP	14,600,000	0.71
12	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	12,605,106	0.62
13	MR WILLIAM DOUGLAS GOODFELLOW	12,525,497	0.61
14	J P MORGAN NOMINEES AUSTRALIA LIMITED	12,513,040	0.61
15	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	11,624,681	0.57
16	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	8,336,374	0.41
17	MR PHILIP BYRNE	7,037,038	0.34
18	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	6,799,980	0.33
19	MR MICHAEL POPE	6,500,000	0.32
20	MESSARA INVESTMENTS PTY LTD <MESSARA FAMILY A/C>	6,450,000	0.32
	Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)	1,000,344,479	48.92
	Total Remaining Holders Balance	1,044,639,822	51.08

3. UNLISTED PERFORMANCE RIGHTS

As at 19 March 2013, there were a total of 21 performance right holders holding 25,717,826 unlisted employee performance rights. The holders do not have any voting rights in their capacity as performance right holders.

4. CHIEF OPERATING OFFICER (NOW MANAGING DIRECTOR) – 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 performance rights and outstanding share entitlements is disclosed in Note 21 to the Financial Statements.

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
Cool	Cool Energy Limited
DOE	Department of Energy
EnCore	EnCore Oil plc
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
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
Nido UK	Nido Petroleum (UK) 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
SC 58	Service Contract 58 dated 12 January 2006, as amended
SC 63	Service Contract 63 dated 24 November 2006

GLOSSARY OF TERMS

sq. km.	Square kilometre
stb	Stock-tank barrels
STI	short term incentive
STOIIP	Stock –tank oil initially in place
TD	Total depth
TRIFR	Total Recordable Injury Frequency Rate in incidents per million man hours
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.

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