President

President Petroleum Company PLC

Interim Report and Financial Statements 2012

Chairman's Statement

Summary

The first half of 2012 was a period of consolidation for President that saw us grow our in-house technical capability and highlight the potential of the Puesto Guardian concession in Argentina through the evaluation of deep gas resources and increased oil in place in carbonate reservoirs. Louisiana continued to provide the company with valuable cash flow. And, as recently announced, President has also leveraged its knowledge of the Argentine Olmedo basin by securing two contiguous exploration blocks in Paraguay which are a direct extension of the proven basin that has produced over 150 mmboe on the Argentine side of the border. This transaction is expected to close in the second half of 2012. Following this acquisition in Paraguay, the company has realised its stated objective of gaining critical mass in one area, and now has an asset with the potential of being transformational for President, with a solid foundation around the reserves and production in Argentina and Louisiana.

Paraguay

Post period end, and subject to completion, President has farmed in to two contiguous blocks in Paraguay which are an extension of the proven Olmedo basin that exists on the Argentine side of the border. The Farm-In Agreement provides for President to earn up to a 59 per cent interest in the Pirity Block from Pirity Hidrocarburos (a subsidiary of PetroVictory); and up to a 60 per cent interest in the Demattei Block from Crescent Global Oil Paraguay S.A. (a subsidiary of Crescent Oil LLC) in the Chaco region of Paraguay. The combined blocks have a gross risked recoverable resource potential of greater than 150 million barrels, with a net success case NPV10 estimated at over US$25 per barrel (President estimates).

This is a significant transaction and the primary focus area for the Company, targeting an enormous Cretaceous rift basin, in a country which is receptive to foreign investment. The transaction is a strategic fit for President, as the petroleum system is well known to the Company through its operations across the border in Argentina. The transaction builds critical mass in the region while providing entry into a new country, and utilises President's expanding technical and operational team.

Paraguay is a constitutional republic, is open for business and has an attractive hydrocarbon law, with a sliding scale royalty with a maximum of 14 per cent. and a 10 per cent corporate tax rate. Paraguay is enjoying strong economic growth and inward investment such as a Rio Tinto aluminium smelter.

Argentina

President and it partner in Puesto Guardian have continued with the field development work that began in 2011 with the announcement of drilling results on PEE-1001, DP-1001 and DP-1002. Production rates have been lifted by successfully bringing the DP-1001 well on-stream, while the PEE-1001 well and DP-1002 well are part of a future frac, sidetrack and work over programme. First half net production of 155 bopd was achieved, with a June average of 235 bopd. Realised prices averaged US$72 per barrel.

Reservoir remodelling and seismic reprocessing continue which will provide the foundation for the development of drilling activity in 2013. Preparations for a work over and frac programme have commenced, with the first frac currently timed for Q4, which will target the bypassed potential reserves that we have identified in the Pozo Escondido and Dos Puntitas fields.

Post period end President has been awarded two new licences adjacent to the Puesto Guardian concession. This expands President's asset base in the Salta region, protecting the potential upside from the significant deep Palaeozoic gas prospective resources identified at Puesto Guardian as highlighted in the January 2012 Gaffney Cline report. President continues to make progress in this country and continues to have a its strong working relationship with the government of Salta Province.

Louisiana

Louisiana continues to provide the Group with solid production and cash flow. Average production in the period was 157 boepd (predominately oil), with June production at almost 200 boepd, reflecting successful workover activity in the period. Average realised prices were US$109 per barrel.

Australia

President's two blocks in Australia are considered legacy assets, albeit with some potential for further work, which the Company is evaluating with ongoing studies and initiatives. As the Australian assets are not core to the central strategy of the Company, President will seek to manage its exposure to future capital expenditure.

Financials

- Revenue increased by 189% to US$5.03 mln (H1 2011: US$1.74 mln) reflecting the inclusion of Argentina in the asset base from July 2011
- Gross Profit US$0.3 mln (H1 2011: US$0.5 mln). In Argentina, average production in the period of 160 bopd was insufficient to cover the fixed cost element of field operations. Gross profit in the Argentine subsidiary is expected to improve as production increases.
- Operating loss prior to impairments increased to US$4 mln (H1 2011: US$2.5 mln) reflecting the increased size and diversity of the business, business development and the scaling up of President's technical capability
- Operating loss reduced to US$4 mln (H1 2011: US$15.5 mln), as 2011 included a one-off impairment charge on the Kafoury 3 well in Louisiana
- Capital raising of GBP 6.2 million in February and provision of loan facility enabled President to continue investing in business development and the on-going operational programme at Puesto Guardian
- On 12 September 2012, the Company announced a proposed fundraising comprising a firm placing of 28,962,500 New Ordinary Shares, a conditional placing of 86,887,500 New Ordinary Shares, an open offer of up to 19,998,541 New Ordinary Shares and a subscription of 18,750,000 New Ordinary Shares, in each case at 20 pence per share to raise £30.92 million (approximately US$49.47 million), assuming full take up under the open offer.
- Levine Capital Management has additionally made available a US$15 mln revolving loan facility available to President for a further 24 months.

Outlook

The entry into Paraguay, which is a direct result of our activity in Argentina, is in line with our stated strategy of building materiality in a core region and leveraging off our existing knowledge and geological understanding of its producing basin in Argentina. President will diversify its asset base, through high impact exploration in Paraguay, complemented by the re-development activities in Argentina and supported by the high margins achieved in our Louisiana operations. The entry into Paraguay has company making potential and will be the primary focus for the Company. Following completion of the fundraising, President will be funded to complete the seismic campaign on the two new Paraguay blocks and drill the first exploration well to test the high impact prospects identified. President also looks forward to increasing its production in its two core producing areas of Argentina and Louisiana.

Peter Levine
Chairman
26 September 2012

Statement of Comprehensive Income
Six months ended 30 June 2012

	Note	6 months to 30 June 2012 (Unaudited) US$000	6 months to 30 June 2011 (Unaudited) US$000	Year to 31 Dec 2011 (Audited) US$000
Continuing Operations				
Revenue		5,033	1,744	7,047
Cost of sales	3	(4,733)	(1,229)	(5,077)
Gross profit		300	515	1,970
Administrative expenses	4	(4,282)	(3,048)	(8,025)
Operating loss before impairment charge		(3,982)	(2,533)	(6,055)
Impairment charge	5	–	(12,990)	(15,837)
Operating loss		(3,982)	(15,523)	(21,892)
Investment income –				
Interest on bank deposits		4	182	215
Realised (losses)/gains on translation of foreign currencies		(2)	(374)	263
Finance costs				
Interest payable on loan		(21)	(2)	(2)
Loss before tax		(4,001)	(15,717)	(21,416)
Income tax credit		2,256	57	56
Loss for the period from continuing operations		(1,745)	(15,660)	(21,360)
Other comprehensive income				
Exchange differences on translating foreign operations		(1,608)	1,773	(913)
Total comprehensive income for the period attributable to the equity holders of the Parent Company		(3,353)	(13,887)	(22,273)
Loss per share	6	US cents	US cents	US cents
Basic and diluted earnings per share from continuing operations		(1.4)	(14.4)	(19.1)

Consolidated Statement of Financial Position 30 June 2012

ASSETS	Note	30 June 2012 (Unaudited) US$000	30 June 2011 (Unaudited) US$000	31 Dec 2011 (Audited) US$000
Non-current assets				
Intangible exploration and evaluation assets	7	37,059	20,384	34,567
Property, plant and equipment	7	21,410	1,148	19,933
		58,469	21,532	54,500
Other non-current assets		330	333	330
		58,799	21,865	54,830
Current assets				
Trade and other receivables		10,901	3,929	4,313
Current tax		–	100	–
Cash and cash equivalents		2,134	23,200	6,293
		13,035	27,229	10,606
TOTAL ASSETS		71,834	49,094	65,436
LIABILITIES				
Current liabilities				
Trade and other payables		10,287	4,205	4,643
Loan from related party		4,600	–	–
Deferred consideration		2,902	–	10,750
		17,789	4,205	15,393
Non-current liabilities				
Long-term provisions		2,691	996	2,691
Deferred tax		6,558	–	8,813
		9,249	996	11,504
TOTAL LIABILITIES		27,038	5,201	26,897
EQUITY				
Share capital		10,829	10,514	10,611
Share premium		77,991	66,478	68,788
Translation reserve		(1,618)	2,676	(10)
Profit and loss account		(43,532)	(36,087)	(41,787)
Reserve for share-based payments		1,126	312	937
TOTAL EQUITY		44,796	43,893	38,539
TOTAL EQUITY AND LIABILITIES		71,834	49,094	65,436

Consolidated Statement of Changes in Equity
Six months ended 30 June 2012

	Share capital US$000	Share premium US$000	Translation reserve US$000	Profit and loss account US$000	Reserve for share-based payments US$000	Total US$000
Balance at 1 January 2011	10,514	66,478	903	(20,427)	34	57,502
Transactions with the owners						
Share-based payments	–	–	–	–	278	278
Loss for the period	–	–	–	(15,660)	–	(15,660)
Other comprehensive income						
Exchange differences on translation	–	–	1,773	–	–	1,773
Total comprehensive income	–	–	1,773	(15,660)	–	(13,887)
Balance at 30 June 2011	10,514	66,478	2,676	(36,087)	312	43,893
Share-based payments	–	–	–	–	106	106
Warrants issued on acquisition of Argentine assets	–	–	–	–	519	519
Shares issued on acquisition of Argentine assets	97	2,310	–	–	–	2,407
Transactions with the owners	97	2,310	–	–	625	3,032
Loss for the period	–	–	–	(5,700)	–	(5,700)
Other comprehensive income						
Exchange differences on translation	–	–	(2,686)	–	–	(2,686)
Total comprehensive income	–	–	(2,686)	(5,700)	–	(8,386)
Balance at 1 January 2012	10,611	68,788	(10)	(41,787)	937	38,539

Consolidated Statement of Changes in Equity
Six months ended 30 June 2012
continued

	Share capital US$000	Share premium US$000	Translation reserve US$000	Profit and loss account US$000	Reserve for share-based payments US$000	Total US$000
Balance at 1 January 2012	10,611	68,788	(10)	(41,787)	937	38,539
Share-based payments	–	–	–	–	189	189
Shares issued less costs	218	9,203	–	–	–	9,421
Transactions with the owners	218	9,203	–	–	189	9,610
Loss for the period	–	–	–	(1,745)	–	(1,745)
Other comprehensive income						
Exchange differences on translating foreign currency	–	–	(1,608)	–	–	(1,608)
Total comprehensive income	–	–	(1,608)	(1,745)	–	(3,353)
Balance at 30 June 2012	10,829	77,991	(1,618)	(43,532)	1,126	44,796

Consolidated Statement of Cash Flows
Six months ended 30 June 2012

	6 months to 30 June 2012 (Unaudited) US$000	6 months to 30 June 2011 (Unaudited) US$000	Year to 31 Dec 2011 (Audited) US$000
Cash flows from operating activities - (Note 8)			
Cash consumed by operations	(3,722)	(5,042)	(5,960)
Interest received	4	182	215
Taxes refunded	–	–	156
	(3,718)	(4,860)	(5,589)
Cash flows from investing activities			
Expenditure on exploration and evaluation assets	(4,036)	(18,418)	(20,866)
Expenditure on development and production assets (excluding increase in provision for decommissioning)	(2,547)	–	(10,047)
Cash paid for acquisition of Argentine assets	(7,848)	–	(1,500)
	(14,431)	(18,418)	(32,413)
Cash flows from financing activities			
Proceeds from issue of shares (net of expenses)	9,421	–	–
Loan from related party	4,600	–	–
Repayment of bank loan capital	–	(150)	(1,339)
Payment of bank loan interest	–	(2)	–
	14,021	(152)	(1,339)
Net decrease in cash and cash equivalents	(4,128)	(23,430)	(39,341)
Opening cash and cash equivalents at beginning of period	6,293	45,690	45,690
Exchange gains/(losses) on cash and cash equivalents	(31)	940	(56)
Closing cash and cash equivalents	2,134	23,200	6,293

Notes to the Consolidated Accounts
Six months ended 30 June 2012

1 Nature of operations and general information

President Petroleum Company PLC and its subsidiaries' (together 'the Group') principal activities are the exploration for and the evaluation and production of oil and gas.

President Petroleum Company PLC is the Group's ultimate parent company. It is incorporated and domiciled in England. The Group has onshore oil and gas production and reserves in the USA and Argentina. The Group also has onshore exploration assets in the USA and Australia. The address of President Petroleum Company PLC's registered office is 13 Regent Street, London, United Kingdom. President Petroleum Company PLC's shares are listed on the Alternative Investment Market of the London Stock Exchange.

These condensed consolidated interim financial statements (the interim financial statements) have been approved for issue by the Board of Directors on 26 September 2012. The financial information for the year ended 31 December 2011 set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the six months ended 30 June 2012 and 30 June 2011 was neither audited nor reviewed by the auditor. The Group's statutory financial statements for the year ended 31 December 2011 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified.

2 Basis of preparation

The interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2011, which have been prepared under IFRS as adopted by the European Union.

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. The interim financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2011.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements.

Notes to the Consolidated Accounts Six months ended 30 June 2012

continued

	6 months to 30 June 2012 (Unaudited) US$000	6 months to 30 June 2011 (Unaudited) US$000	Year to 31 Dec 2011 (Audited) US$000
3 Cost of Sales			
Depreciation	990	729	1,711
Well operating costs	3,743	500	3,366
	4,733	1,229	5,077
4 Administrative expenses			
Share-based payments	189	278	384
Other	4,093	2,770	7,641
	4,282	3,048	8,025
5 Impairment charge			
Louisiana	–	12,990	15,837
6 Loss per share			
Net loss for the period attributable to the equity holders of the Parent Company	(1,745)	(15,660)	(21,360)

	Number '000	Number '000	Number '000
Weighted average number of shares in issue	120,378	108,738	111,743
Loss per share	US cents	US cents	US cents
Basic and diluted	(1.4)	(14.4)	(19.1)

7 Non-current assets

	Intangible US$000	Property Plant and Equipment US$000	Total US$000
Cost			
At 1 January 2011	17,320	8,867	26,187
Additions	18,418	–	18,418
Exchange difference	585	–	585
At 30 June 2011	36,323	8,867	45,190
Additions	2,448	10,047	12,495
Acquisition through business combination	16,538	8,643	25,181
Exchange difference	(844)	–	(844)
Transfer	(1,112)	1,112	–
At 1 January 2012	53,353	28,669	82,022
Additions	4,036	2,547	6,583
Transfer	(1,544)	1,544	–
Exchange difference	–	(1,624)	(1,624)
At 30 June 2012	55,845	31,136	86,981
Depreciation/Impairment			
At 1 January 2011	2,949	6,990	9,939
Charge for the period	12,990	729	13,719
At 30 June 2011	15,939	7,719	23,658
Charge for the period	2,847	1,017	3,864
At 1 January 2012	18,786	8,736	27,522
Charge for the period	–	990	990
At 30 June 2012	18,786	9,726	28,512
Net Book Value 30 June 2012	37,059	21,410	58,469
Net Book Value 30 June 2011	20,384	1,148	21,532
Net Book Value 31 December 2011	34,567	19,933	54,500

Notes to the Consolidated Accounts
Six months ended 30 June 2012
continued

8 Reconciliation of operating profit to net cash outflow from operating activities

	6 months to 30 June 2012 (Unaudited) US$000	6 months to 30 June 2011 (Unaudited) US$000	Year to 31 Dec 2011 (Audited) US$000
Loss from operations before taxation	(4,001)	(15,717)	(21,416)
Finance costs	17	(180)	(213)
Depreciation and impairment of property, plant and equipment	990	729	1,746
Impairment of intangible assets	–	12,990	15,837
Share-based payments	189	278	384
Foreign exchange difference	731	298	(73)
Operating cash flows before movements in working capital	(2,074)	(1,602)	(3,735)
Increase in receivables	(7,575)	(2,088)	(2,465)
Increase/(decrease) in payables	5,927	(1,352)	240
Net cash consumed by operating activities	(3,722)	(5,042)	(5,960)