



Annual General Meeting

13 May 2011

Chairman's Address

On behalf of the Board of Directors, I am pleased to present this report on the Company's 2010 results and progress and our plans for 2011.

During 2010, the Company achieved a number of significant operational and financial milestones, together with a transition of new executive leadership.

Gas production from our two wells in the Sillaro field commenced in mid-2010. Combined production from our Sillaro and Castello fields totalled 26.78 million cubic metres (0.946 bcf) during the 2010 calendar year with the bulk coming from Sillaro. Sillaro produced at a consistent level above 80,000 cubic metres per day during the last six months to December and continued at that rate in the first quarter of 2011.

Sillaro's good production rates offset reduced production from Castello due to water influx and poor gas flows. Geological analysis has confirmed that it will be necessary to drill a new deviated well (Vitalba-1dirA) to tap remaining Castello reserves, and a rig has been secured for this new well which we hope to spud not later than September. If the new well is successful, we will significantly increase production at Castello as soon as we can. Since all the production plant at Castello is in place, this will generate an immediate increase in net cashflow.

Despite the setback at Castello, the Company's operating revenues for the year were a record € 7.1 million. Earnings before interest, tax, depreciation and amortisation (EBITDA) in 2010 were €2.2 million. This is the first year in which the Company has generated positive EBITDA. In addition, during 2010 we reduced our debt facility with Bank of Scotland by €4.3 million to a balance year-end of €6.0 million which we deemed prudent in light of our dependency on the Sillaro well's continued good performance.

The Company continued to grow its portfolio of exploration licences in 2010 with the preliminary grant of our first offshore licence, located in the Adriatic Sea. Since year-end, we also received final award of two promising exploration licences at Cadelbosco di Sopra and Grattasasso in the Po Valley region.



As shareholders know, following the unexpected downgrade of resources at our Bezzecca well, the Board commissioned a comprehensive review by competent experts of all the Company's reserves and resources.

The results of those reviews have been progressively reported to shareholders and are summarised in this annual report. That exercise is now substantially complete and, while some reserves and resources have been adjusted up and some down, the net changes are relatively small.

I turn now to board and management developments. In mid-2010, we were pleased to secure the services of Giovanni Catalano, a 30-year professional in the oil and gas industry, as our Chief Operating Officer. In October, following the decision by our founding Chief Executive, Michael Masterman, to retire from his executive role with the Company, Giovanni was appointed as Chief Executive Officer. He has brought to the Company the valuable expertise and experience acquired during his long career in the industry, including, most recently, his role as the CEO in Italy of Mediterranean Oil & Gas.

We thank sincerely our outgoing Chief Executive, Michael Masterman for his pivotal contribution to the Company. As a major shareholder, Michael remains actively engaged with the Company as a non-executive director and Deputy Chairman.

We were also pleased to welcome several new members to the Company's executive team in Rome: Sara Edmonson, our Finance Manager, Diego Balistreri, our Production Manager, Giorgio Bertuzzi, our Exploration Manager, and Cristian Masini, Petroleum Engineer.

During 2010, we also welcomed Greg Short to the Board. Greg is a veteran of the oil and gas industry with a long career in gas exploration and development with Exxon in a number of countries around the world. Greg's expertise considerably strengthens the Board's technical knowledge, particularly in geological and geophysical analysis.



In conclusion, your directors share the disappointment of all shareholders in the poor performance of the Company's share price during 2010 and the setbacks underlying that performance. We believe, however, that our Company is now well placed to realise full value from the Company's assets.

The Board believes we have in place a small but strong technical and management team in Italy, well matched to the task of moving our most prospective exploration targets from appraisal drilling to production. Our focus over the next 12–24 months will be to do so, in some cases using our own cash resources, and in others in partnership with farm-in co-investors. Mr. Catalano will more fully describe our future plans in his presentation, but let me stress that the Company's development and exploration program, our team's capacity to deliver our projects and the Italian gas market are all stronger and more robust than at any time in the Company's history.

On behalf of shareholders, I would like to thank our small but hardworking management team for their efforts during 2010. I also thank my Board colleagues for their continued dedication and commitment.

I look forward to reporting more fully on our plans and progress during 2011.

Graham Bradley