



23 May 2011

**COVE ENERGY PLC
FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010**

Cove Energy plc ("Cove", the "Company" or the "Group"), the independent oil & gas exploration company, today announces its final results for the 12 month period ended 31 December 2010.

2010 Highlights

Mozambique Rovuma Offshore Area 1

Drilling success – Three major gas discoveries, oil encountered:

- Windjammer (555 ft net gas pay)
- Barquentine (416 ft of net gas pay)
- Lagosta (550 ft of net gas pay).
- Ironclad well encounters oil
- Validation of seismic model

Commercialisation/Contingent Gas Resources

- Combined gas resources sufficient to support monetisation through Liquefied Natural Gas ("LNG") development.
- Contingent Gas Resources for combined Windjammer/Barquentine/Lagosta ("Palma Gas Area") discoveries estimated to be 12 TCF (Pmean).

New Ventures

- Acquired 15% interest in 5 contiguous deepwater blocks offshore Kenya

Corporate

Successful equity funding combined with significant capital appreciation

- £136 million (\$210 million) raised in new equity

2011 - Year to Date - Highlights

- Tubarao Gas Discovery (110 feet net gas pay) – Contingent Gas Resources in excess of 1 TCF (Pmean).



- Cove recognise the potential for substantial additional upside resource potential to the Palma Gas Area and Tubarao discoveries based on new interpretation of existing seismic and well data
- Circa 4,000 sq km new 3 D seismic programme underway in Rovuma Offshore
- Commitment to 2 deepwater rigs for Q4 2011 for exploration, appraisal and testing in Rovuma Offshore
- Appraisal programme of Palma Gas Area of Rovuma Offshore commenced. Extensive coring programme at Windjammer discovery completed, rig now at Lagosta wellsite.
- LNG Development planning underway
- Interest acquired in 2 further blocks offshore Kenya

Outlook

Cove has established a unique, highly valued and coherent asset portfolio offshore East Africa that offers shareholders numerous material and exciting drilling opportunities in years to come.

Mozambique Rovuma Offshore Area 1

- Pursue Mozambique LNG project whilst exploring appropriate monetisation opportunities to capture the underlying value of the LNG project and exploration potential.
- Aggressive oil and gas exploration and appraisal programme planned to continue to 2014 with the availability of the new 3 D seismic data coinciding with the introduction of a second deep water rig in Q4 2011.
- In recent months there has been a marked increase from potential gas buyers (including some of the offshore partners) to commence dialogue to acquire future LNG.

Mnazi Bay – Tanzania

- The partnership is continuing negotiations to secure gas sales agreements with potential customers including cement manufacturing and power plant operators. Pending successful outcome of these negotiations the partnership will develop an appropriate exploration and appraisal programme in the licence area.

Kenya

- More than 3,500 sq kms of new 3 D seismic will be acquired during 2011 in the 5 contiguous deep water blocks operated by Anadarko.
- Exploration operations to commence on the recently obtained L10A and L10B offshore blocks.

New Ventures

- Management focussed on securing new ventures opportunities with dynamic work programmes to continue to drive the Company's strategy

Working Capital



- Current portfolio expenditure commitments funded into 2012

Michael Blaha, Chairman of Cove commented,

“2010 was a remarkable second year for Cove in which the company transformed the assets that we acquired in 2009 from Artumas with world class exploration successes that added significant contingent gas resources that is to form the basis for a significant LNG project. In addition Cove has expanded its portfolio with some strategic exploration positions in 7 deep and shallow water blocks in Kenya. In our strategy we remain focused on geology in emerging basins with intensive exploration and appraisal programmes executed by competent operators. We have established ourselves as a reliable company that is focussed on creating shareholder value on the basis of a very clear strategy.

Cove’s participation in the Rovuma Offshore Area 1 gas discoveries has positioned the Company in a leading LNG project. The Rovuma Offshore Area 1 partnership has commenced an aggressive appraisal, development and commercialisation programme; which aims for investment sanction of the LNG project in Q3 – 2013. We continue the exploration programme on the numerous high priority oil and gas targets which will be supported by the additional 4,000 sq km 3D seismic that will be integrated with the existing 3,000 sq km 3D seismic. We aim to search for additional gas resources to support an ever expanding LNG project and we are hopeful of discovering an oil resources in the south following the oil encountered in Ironclad well during 2010.

I and the Cove Board are confident that the combined exploration and appraisal programmes, currently underway on our East Africa portfolio, will achieve continuing significant growth for shareholders in what promises to be an exciting future.

“Finally I am grateful for all the support that was given to us by our consultants, advisors and my colleague directors. This group of people has formed a nimble "fit-for-purpose" and professional team. Without this team we could not have achieved today's tremendous position in a period of under two years since the company was initiated.”

For further information, please contact:

Cove Energy plc

John Craven, CEO c/o Billy Clegg

Tel: +44 (0)20 7831 3113

Cenkos Securities - Nomad

Jon Fitzpatrick

Tel: +44 (0)20 7397 8900

Ken Fleming

Tel: +44 (0)131 220 6939

Financial Dynamics

Billy Clegg / Edward Westropp

Tel: +44 (0)20 7831 3113



John Craven, Chief Executive Officer of Cove, and a qualified person as defined in the Guidance Note for Mining, Oil and Gas Companies, March 2006, of the London Stock Exchange, has reviewed and approved the technical information contained in this announcement. Mr Craven is a petroleum geologist with over 36 years' experience.



Chairman and Chief Executive's Statement

Introduction

2010, was a monumental year of exploration success and capital appreciation for Cove Energy plc ("Cove").

Having secured partner and governmental consents in respect of the assets acquired in a series of farm in transactions in Mozambique and Tanzania in late 2009, Cove made significant progress in 2010.

The highlights of the Company's performance were the three major gas discoveries in conjunction with its partners, in the Mozambique Offshore Area 1 block ("Rovuma Offshore"); at Windjammer (555 ft of net gas pay); Barquentine (416 ft of net gas pay); and Lagosta (550 ft of net gas pay) (together the "Palma Gas Field"). These discoveries have since been augmented by a further gas discovery on the Tubarão well (110 ft of net gas pay), announced in February 2011.

The partnership is confident that these combined discoveries in the Palma Gas Field contain sufficient hydrocarbons to support a single liquefied natural gas ("LNG") train of 6+ trillion cubic ft ("TCF"), moreover Cove recognise the potential for substantial additional upside resource potential to the Palma Gas Area and Tubarão discoveries based on new interpretation of existing seismic and well data which would expand the LNG development plans.

These significant discoveries have now propelled the Rovuma Offshore partnership into a continuous and parallel appraisal and exploration programme covering both the declared gas discoveries and the remaining robust exploration inventory throughout Rovuma Offshore.

The activity and exploration success in Rovuma Offshore is further supported by the Company's strategic interests in the contiguous blocks in Mozambique Rovuma Onshore and in the Mnazi Bay gas field in Tanzania.

Additionally the Company extended its portfolio in East Africa through a farm in to a 15% interest in five deepwater blocks Offshore Kenya, announced in July 2010.

In anticipation of the exploration and development programmes within its portfolio the Company raised £110 million (US\$171 million), before expenses, in November 2010 to provide additional working capital to the Company to finance these programmes into 2012.

Rovuma Offshore – Cove 8.5% Working Interest ("W.I.") Operator: Anadarko Petroleum Corporation

Exploration programme

Following its four gas discoveries to date the Rovuma Offshore partnership has committed to a programme of approximately 4,050 sq km of additional three dimensional ("3D") seismic acquisition. This seismic programme will infill a significant area of Rovuma Offshore both north and south of the current 3D area. This programme commenced in early February 2011 and is scheduled to complete in June 2011. On-board processing of the new data will be undertaken and the partnership's technical team will also integrate the well results with the existing and new 3D seismic, looking to extend the gas



play outboard from discovery areas, test new play concepts and evaluate targets for liquid hydrocarbons.

This work should add additional high priority drill targets to our already robust exploration inventory and assist with the gas commercialisation and appraisal programme. It is anticipated that exploration drilling of new targets following this overall assessment will recommence in Q4 2011 when a second rig is scheduled to enter Rovuma Offshore; the expectation is that exploration targets will be drilled thereafter on a continuous basis into 2012.

Commercialisation and appraisal programme

A feature of the four gas discoveries to date is that the seismic model interpretation being used by the Rovuma Offshore partnership is working. Anadarko describes the Rovuma Offshore block as having “the geology of size”. They describe the four discoveries as having a vast areal extent and a huge resource potential, carrying high quality sands with very low dip rates in the combination traps.

The partnership has commenced appraisal drilling and the Belford Dolphin is currently employed on a detailed coring programme at the Windjammer and Lagosta discoveries. This will be followed by a series of up to five appraisal wells concentrated on the existing discoveries. Testing equipment will be carried on a second rig which has been requisitioned for the block.

In tandem with these appraisal and exploration activities the Rovuma Offshore partnership has sanctioned an immediate fast track commencement of the planning, development and commercialisation aspects for a single train LNG development. The partnership has engaged industry professionals to certify gas reserves, negotiate market capture and arrange project finance, front end engineering and design work, site selection and acquisition and environmental and development permitting. These workstreams are in progress with the aim of reaching a final investment decision (“FID”) in 2013.

This is a pivotal and a significant strategic development for Cove. To have a material working interest in such a major world-class gas discovery, and as a member of a partnership that is working to an FID on this project within the next two years, places Cove in a unique and exciting phase of its development. Based on the estimates of the gas discovered in Rovuma Offshore, Cove and its partners are considering their options with a base case being the construction of a single LNG train of over 4.5million tonnes per annum (“mtpa”).

The Company estimates that its share of the exploration, appraisal and development budget will amount to approximately \$86 million in 2011, which will be financed from existing cash resources.

Mozambique Onshore – Cove W.I. 10%, Operator: Anadarko Petroleum Corporation

The Mozambique Onshore partnership agreed in January 2011 to enter Phase II of the exploration programme. Phase II runs to September 2013 and has combined 2D seismic and a single exploration well commitment. An area equating to 10% of the original block has been ceded as part of the licensing terms on entering Phase II.



It is envisaged that 2D acquisition will commence in late 2011 with a drilling programme to follow in 2012 or 2013.

Tanzania Mnazi Bay – Cove W.I. Production (16.38%), Exploration (20.475%), Operator: Establishments Maurel & Prom

The Mnazi Bay partnership is mainly focused on developing new monetisation options for the proven gas reserves in its block. At present the partnership supplies approximately 2 million standard cubic ft (“scf”) per day to the Wentworth power generation plant and this activity contributes approximately \$30,000 per month in gas sales to the Company. The proven gas reserves are able to support many times the current production levels and discussions and negotiations are underway with respect to new projects which would utilise this gas reserve. These new projects include a 300 megawatt (“MW”) gas-based power station, a cement manufacturing facility and a chemical project being promoted by one of the partners.

Negotiations have advanced in respect of a 300 MW gas-based power generation project in Mtwara and a transmission line to Singida. The plan is for the project to be implemented by Tanzania Electric Supply Company (“TANESCO”) and China National Machinery & Equipment Import & Export Corporation (“CMEC”). The project development contract was signed on 2 November 2010, a feasibility study commissioned on 18 January 2011 and the project has an operational date of April 2014.

The Company is encouraged by these developments. In 2011, we expect movement on the new commercialisation options and we are prepared, along with the operator Maurel & Prom, to instigate new exploration and appraisal programmes should the partnership be confident of the demand for additional gas reserves. Internally, Maurel & Prom estimates that Mnazi Bay could contain in excess of 2 TCF.

The success of BG Group and Ophir in Offshore Tanzania and their close proximity to the Mnazi Bay block is being closely monitored.

Kenya Offshore (L5, L7, L11A, L11B & L12) – Cove W.I. 15%, Operator: Anadarko Petroleum Corporation

In September 2010 Cove received all consents needed to enter into the Production Sharing Contract (“PSC”) for its offshore Kenya properties which cover approximately 30,000 square kilometres. Kenya Offshore is regarded by Anadarko as having a very similar depositional environment to the Rovuma Basin in Mozambique.

The planned work programme for 2011 includes a fast track 3D seismic programme. This work will complement the existing 2D seismic that was acquired in 2010 in the block.

Anadarko has indicated that this 3D seismic work in 2011 will be followed by a drilling programme in 2013.

Cove has a budget of approximately US\$6 million for this work in 2011.



Kenya Offshore (L10A & L10B) – Cove W.I. 25% & 15%, Operator: BG Group plc

On 17 May 2011 Cove and its partners signed the PSC with the Government of Kenya in respect of the above two blocks. Preliminary work will commence in 2011. Blocks L10A and L10B together cover an area of more than 10,400 square kilometres in the southern portion of the Lamu Basin offshore Kenya in water depths ranging from around 200 metres to in excess of 1 900 metres. They are also adjacent to and inboard of deepwater blocks L11A and L12, both part of Cove's other Kenyan interests.

New Business Development

Cove maintains a regular dialogue with the industry in seeking new projects to add to its expanding portfolio.

Other opportunities are being evaluated and shareholders will be updated as developments occur.

Working Capital

The Company raised approximately £25.7 million (before expenses) (equivalent to approximately US\$38.6 million) by the issue of 64.3 million new ordinary shares at a price of 40 pence per share in March 2010.

A further capital raising was carried out in November 2010, which raised a total of £110.0 million (before expenses) (equivalent to US\$171 million) in a placing of 144.7 million new ordinary shares at a price of 76 pence per share.

At 31 December 2010 Cove had cash balances of approximately US\$199.3 million. This cash treasury leaves the Company well funded for its 2011 commitments and further commitments into 2012, based on Cove's best current estimates of the anticipated work programmes.

Results for Year

The Group's loss for the year was US\$5.0 million (2009:US\$1.6 million) Production revenue from our interests in Mnazi Bay yielded a revenue of US\$0.36 million (2009: \$Nil). Administrative expenses of US\$5.8 million were incurred during 2010 (2009: US\$1.7 million), including a non-cash charge in respect of share based payments of US\$2.2 million (2009: US\$1.0 million).

Balance Sheet

The net assets of Cove have increased to US\$272.0 million as at 31 December 2010 (2009: US\$69.2 million), due to our ongoing investment in our African projects and as a result of the equity placings effected in 2010. The most significant component of this is the cash balance of US\$199.3 million (2009: US\$51.2 million of which US\$35.1 million was held in escrow) referred to above.

Board

Steve Staley was appointed to the Board as a Non-executive Director in February 2010. Steve has a wealth of international oil and gas experience having fulfilled senior technical and management roles in the sector. Steve is Chairman of the Company's Remuneration Committee.



Anthony Golding was also appointed to the Board as a Non-executive Director in July 2010. A lawyer, Anthony is currently a consultant to leading law firm Thompson & Knight LLP and previously spent 14 years at LASMO plc where he held a number of legal posts including Group General Counsel and US Business Manager from 1998 to 1999.

Outlook

Cove is excited by its exploration and appraisal prospects for 2011 and into 2012 which should build on the 2010 discoveries in Rovuma Offshore. We are looking forward to an extensive twin track appraisal/development and exploration programme there.

We are also cognisant of the unique position we hold generally in the East African margin and the advantage and privilege of being early participants there, prior to the commencement of successful high impact drilling programmes in Rovuma Offshore and other adjacent blocks.

Michael Blaha
Executive Chairman

John Craven
Chief Executive

22 May 2011



Operational Review

Introduction

Cove made rapid progress in 2010 due to its participation in the natural gas discoveries in Mozambique Offshore Area 1 block ("Rovuma Offshore"). The extent of these discoveries has allowed the Rovuma Offshore partnership to commence an extensive appraisal and development programme to commercialise these discoveries whilst also maintaining an aggressive exploration programme, which includes the acquisition of over 4,000 sq km of new 3D seismic, to be followed by a continuing drilling programme.

A decision was made in 2010 to continue into Phase II of the Onshore Mozambique licence. The Tanzania Mnazi Bay gas field continues to supply the Wentworth power plant at Mtwara, whilst Maurel & Prom have initiated a wide ranging study on commercialisation options for the gas discoveries in the Tanzania Mnazi Bay field. Discussions are progressing with a number of third parties to advance these opportunities.

In July 2010, Cove farmed into a 15% paying interest (13.5% net working interest) in five blocks Offshore Kenya. These blocks, operated by Anadarko, will see the acquisition of new 3D seismic during 2011. Cove in partnership with BG Group, Premier Oil and Pancontinental Oil & Gas, have signed and completed a Production Sharing Contract ("PSC") over two additional blocks, L10A and L10B, in Offshore Kenya.

OFFSHORE MOZAMBIQUE

Gas Discoveries 2010 and 2011

In 2010 and early 2011 four significant gas discoveries were made by the Rovuma Offshore Area 1 partnership. These discoveries have precipitated an appraisal and testing programme aimed at achieving a final investment decision on a Liquefied Natural Gas ("LNG") project by Q3-2013. The current estimate for the resource potential is some 12 trillion cubic ft ("TCF") of gas and planning is already underway to evaluate the commercialisation of a project utilising a minimum of 6 TCF in a single train LNG project.

Windjammer

The Windjammer well is located some 30 miles off the coast of northern Mozambique in approximately 4,800 ft of water. Windjammer reported 480 net ft of natural gas pay in high-quality reservoir sands in two distinct horizons of Oligocene age sandstones, with a gross column of more than 1,200 ft. An additional 75 net ft of gas pay was discovered in the Paleocene target, bringing the total net ft of natural gas pay in Windjammer to 555 ft. The well reached total depth at approximately 16,930 ft and was plugged and suspended in March 2010.

A coring programme as part of the appraisal work on this discovery commenced in February 2011 and the following is an analysis of this operation:

Windjammer #2, BP2 – Paleocene – Total Cut 121.0m

Windjammer #2, BP3 – Oligocene Fan 1 – Total Cut 162.0m
Windjammer #2, BP3 – Oligocene Fan 2 – Total Cut 110.0m
Programme Total – Cut 393.0m, Recovered 389.7m (99.2%).



Barquentine

The Barquentine well which is located two miles northeast from the Windjammer discovery reported a total of 416 net ft of natural gas pay in multiple high-quality sands in October 2010. Specifically, the discovery well encountered more than 308 net ft of pay in two Oligocene sands that are separate and distinct geologic features, but age-equivalent to those horizons in Windjammer. This well also found an additional 108 net ft of gas pay in the Paleocene sands and the seismic data indicates that this deeper pay section is contiguous and appears to be connected to the 75 net ft of natural gas pay encountered in the Paleocene target at Windjammer.

Barquentine was drilled to a total depth of approximately 16,880 ft, in water depths of approximately 5,200 ft.

Lagosta

The Lagosta well encountered a total of more than 550 net ft of natural gas pay in multiple high-quality Oligocene and Eocene sands and was announced in November 2010. This discovery is located approximately 16 miles to the south of the Barquentine discovery and 14 miles to the southeast of the Windjammer discovery.

Lagosta was drilled to a total depth of approximately 16,307 ft, in water depths of approximately 5,080 ft.

Tubarão

The Tubarão discovery well encountered more than 110 net ft of natural gas pay and no water in a high-quality Eocene-age reservoir that is separate and distinct from the hydrocarbon accumulations in the three previous discoveries. The well was drilled to a total depth of approximately 13,900 ft in water depths of approximately 2,950 ft and was plugged and suspended in February 2011. Tubarão is located some 17 miles southwest of the Lagosta drill site.

The well bore at Tubarão was preserved by the partnership for potential utilisation in future testing.
Other Drilling Results 2010

Two further wells have been drilled in the Rovuma Offshore Area 1 block during 2010 as follows:

Ironclad

The Ironclad well location is approximately 110 km south of the Windjammer gas discovery well and was drilled to evaluate the hydrocarbon potential of an aerially extensive Cretaceous deepwater fan complex in the southern part of the Rovuma Offshore Area 1 block and in particular to determine the presence of oil in an area believed to have the geological parameters necessary for liquid hydrocarbon generation. Drilling operations ceased in August 2010 at a total depth of 17,403 ft, in a water depth of 3,445 ft, the well having penetrated approximately 671 ft of targeted Cretaceous age sediments in two distinct fan lobes.

The well penetrated approximately 125 net ft of oil and gas saturated sands in the upper fan lobe. The presence of oil was confirmed by geochemical analysis of rotary side wall cores taken from the well bore. The oil encountered in the Ironclad well is the first documented occurrence of liquid hydrocarbons



in deepwater offshore East Africa. There were also significant gas shows reported throughout the drilling of the Cretaceous section.

An analysis of the logs and cores indicates that the sands, in which the oil and gas were encountered, have low porosity and permeability.

Collier

In April 2010 operations on the Collier well were suspended after encountering pore pressure issues at the top of the predicted reservoir objective, causing the operator to deem it unsafe to continue drilling. The Collier well did not penetrate or fully evaluate the entire predicted objective section. The well was plugged and suspended at approximately 10,500 ft.

Collier is located 45 miles off the coast of Mozambique at a water depth of 4,922 ft.

ADVANCING ROVUMA OFFSHORE DISCOVERIES TOWARDS A COMMERCIAL SOLUTION

The Rovuma Offshore partnership has sanctioned a rapid exercise to appraise and evaluate the known gas discoveries to final investment decision ("FID") by Q3-2013.

A series of parallel programmes have been initiated in order to achieve this milestone.

Appraisal Drilling, Coring and Testing

Following the completion of the Tubarão discovery the Belford Dolphin drill ship has been contracted to commence appraisal activities on the three discoveries at Windjammer, Barquentine and Lagosta (together "Palma Gas Field"). The partnership is confident that the gas discoveries are contained in high-quality; continuous sands with low dip rates which have the potential for a massive hydrocarbon resource over a vast areal extent. In order to validate this potential, sequential coring, appraisal and testing have been planned and will utilise the Belford Dolphin until a second drill ship, the Deepwater Millennium, joins the programme in Q4 – 2011.

A coring programme, on three pay zones encountered in the Windjammer discovery, commenced in February 2011 and was completed in early May 2011. The ship is being dispatched to the Lagosta discovery to take cores on the Oligocene and Eocene gas intervals. The partnership plans to commence drilling appraisal wells, at the completion of the Lagosta coring programme.

The concept behind the coring programme is to acquire full core over all the potential reservoir intervals (Paleocene, Eocene and Oligocene) aimed at accelerating the development plan and FID objective. The partnership is working to a programme that will result in an ability to correlate the extracted core to existing drill logs and thence to their proprietary seismic data. As detailed core analysis is a time consuming process, the ability to acquire these cores and send them for analysis early should allow the data to be integrated into critical stages of new appraisal wells and mapping onto recently acquired 3D seismic. The latter is also being processed contemporaneously. The overall evaluation of the cores and alignment of this data with other proprietary data secured on the block will have a significant impact on development plans and facilities design. In particular some outboard pay zones may, in the event that the cores return superior reservoir characteristics, allow these to be included in reserve cases. In addition they could determine the number of wells required and deliverability of the base development scenario.



3D Acquisition and Processing

The Rovuma Offshore partnership has commenced a new 3D seismic programme which is acquiring over 4,000 sq km of 3D in the areas immediately north and south of the existing 3D area, to the respective block boundaries. The acquisition to the south has been achieved and the acquisition in the northern area commenced in mid-April 2011. Final processing and integration into the existing database, which may take until early 2012 to complete, will assist in the prioritising of exploration targets and allow the partnership to understand the ultimate potential of the block with more certainty.

Reserve Certification and Commercialisation

As part of the project development process the partnership will shortly appoint a reserves auditor. The reserves auditor will also assist the planning and development process by helping ensure that we maximize the value of the type and amount of data collected. The reserves auditor is charged with presenting an independent, technically rigorous review that results in a "letter" or "report" certifying the reserves and production forecasts of a field ("Reserve Report"). The partnership has determined that reserves, for booking purposes, should meet Securities Exchange Commission and AIM Rules standards.

In completing the Reserve Report the work of the auditor entails a detailed review of the proposed development plan and commercial agreements. The Reserve Report is utilised by either potential buyers of the LNG from the project or lenders to the project. Buyers often rely on the seller of the LNG to confirm or, in some cases, to submit its Reserve Report stating that the estimates of proved ("1P") reserves are sufficient to satisfy the obligations of the seller to supply LNG in accordance with a heads of agreement or sales and purchase agreement.

Front End Engineering Design ("FEED") and Environmental Impact Assessment ("EIA")

The project team will work with industry professionals to formulate a robust technical plan to capture the gas reserves offshore and build an infrastructure to deliver the gas to a proposed LNG plant onshore. In addition to the technical aspects the partnership needs to consider environmental impacts and the impact on other stakeholders including all stakeholders from the local population to the Government of Mozambique.

Commercial

A key objective in the development process is the securing of long term gas sales agreements that are sufficiently robust to underpin a decision to investment in the project.

Ongoing Exploration

A significant feature of the work in Rovuma Offshore Area 1 block is the expectation of a return to the aggressive drilling programme in late 2011, following the arrival of the second rig, the Deepwater Millennium. At this stage it is expected that the Deepwater Millennium will be deployed for appraisal drilling and testing with the Belford Dolphin returning to drilling exploration wells.

The new 3D seismic acquisition will provide an important orientation tool and the partnership is confident that it will prove as accurate in predicting hydrocarbons in the new 3D area as it has to date in the existing 3D area.



Currently the partnership has confirmed gas discoveries in the Palma Gas Field and at Tubarão and has encountered oil in Ironclad. There are a number of existing high priority targets within these proven areas that will be attractive for new exploration drilling including Atum, Orca and Trawler (Palma Gas Field) and Barracuda. In addition the results from the new 3D programme will provide a greater technical understanding on the targets in the south of the block, Caravel, Black Pearl and Bireme and in the northern area Linguado, Golfino and the Miocene targets in the north-east of the block.

ONSHORE MOZAMBIQUE

In the Mozambique Rovuma Onshore block, the partners have agreed to enter into the second phase exploration programme. Phase II, to be implemented over a period of 30 months, commenced on 1 March 2011. The minimum work obligations for Phase II consist of 100 sq km of 3D seismic and the drilling of an additional exploration well.

One well, Mecupa 1, has been drilled by Cove and its partners on this concession and reached the target depth of 2,898m in mid-November 2009. This first drilling location was selected based on the seismic data acquired in 2008 which showed positive structural closure on three of the 2D seismic lines. After a necessary side track, the well was plugged back and abandoned in late November 2009, mainly due to the condition of the well bore. While the well is not fit for production, the results are encouraging. The well encountered excellently developed reservoir quality sands and hydrocarbon indications throughout, however, analysis of the logs suggest that the potential reservoir sections penetrated have high water saturation and would not flow commercial quantities of gas if drill stem tested.

In accordance with the requirements of the EPCC, 10% of the block was relinquished to the Mozambican authorities following the successful completion of Phase I commitments.

TANZANIA, MNAZI BAY

Cove's Tanzania operations consist of a 16.38% working interest in a gas producing asset currently supplying gas to the power plant owned by one of the partner's in the consortium, Wentworth Resources Limited ("Wentworth"). In addition Cove has a 20.4% interest in the Mnazi Bay exploration project. Maurel & Prom is the operator of both the gas producing and exploration projects. The gas producing asset supplies approximately two million standard cubic ft per day ("mmscf/d") gas to the power plant and there are plans to increase this over the next two years. High level discussions continuing with Chinese industrialists and with the Tanzanian government to build a 300 Mega Watt ("MW") power plant. There are also discussions to supply gas to planned local cement manufacturing concerns.

Both Maurel & Prom and Wentworth have undertaken to present feasibility studies on a variety of projects aimed at monetising the gas resource. Wentworth management has expertise in building methanol/urea facilities and this will form the basis of their report. A pre-feasibility study indicated that a methanol/urea plant may be the best monetisation method. The plant would cost about US\$1.5 billion and will have capacity for one million tonnes per annum ("mtpa") methanol and 0.8 mtpa urea.

Maurel & Prom has looked at wider monetisation options including the Chinese power plant, which envisages a 300 MW gas-based generation plant at Mtwara, a High Voltage Direct Current ("HVDC")



overhead transmission line from Mtwara to Singida in central Tanzania and HVDC converter stations and connections to the national grid.

Additional and new gas sales agreements would lead to a renewed exploration programme including the acquisition of new 3D seismic and the drilling of exploration wells.

OFFSHORE KENYA

Cove purchased a 15% interest in five Kenya offshore blocks being L5, L7, L11A, L11B and L12 in November 2010. These were purchased from Dynamic Global Associates, a private Houston based company who now also hold 15%. The operator is Anadarko who hold a 70% interest. Under the Kenyan PSCs, the Government of Kenya has the right to a 10% carry during the exploration phase, which would dilute the partners pro rata. The area is more than 30,000 sq km covering an extensive deepwater zone from the Somalia border in the north to Tanzania in the south. The area contains similar play types to those encountered in Rovuma Offshore Area 1. The partnership has confirmed the reservation of a seismic boat with the expectation that approximately 4,000 sq km of 3D will be acquired during 2011. The plan to bring forward this work stream will accelerate the commitments of the first phase of the additional exploration period, which is due under the PSC to commence in 2012.

In February 2011 Cove announced that partnerships in which it holds 25% and 15% interests, were negotiating with the Government of Kenya for offshore blocks L10A and L10B, with BG Group as operator. A PSC over these blocks was signed and completed with the Government of Kenya on 17 May 2011.



GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 US\$'000	2009 US\$'000
Continuing operations			
Revenue		363	-
Operational costs		<u>(369)</u>	<u>-</u>
Gross loss		(6)	-
Administrative expenses		(3,703)	(735)
Cost of share based payments		(2,163)	(996)
Impairment of exploration and evaluation assets		<u>(10)</u>	<u>(135)</u>
Group operating loss	2	(5,882)	(1,866)
Finance revenue		<u>867</u>	<u>218</u>
Loss on ordinary activities before taxation		(5,015)	(1,648)
Income tax charge	3	<u>-</u>	<u>-</u>
Loss for the year from continuing operations		(5,015)	(1,648)
Other comprehensive income			
Exchange translation differences		<u>(2)</u>	<u>6</u>
Total comprehensive loss for the year attributable to the equity holders of the parent		<u><u>(5,017)</u></u>	<u><u>(1,642)</u></u>
All of the Group's activities are continuing.			
Earnings per share			
Net loss per share from continuing operations		<i>Cents</i>	<i>Cents</i>
Basic and Diluted	4	(1.46)	(1.83)



GROUP STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Note	2010 US\$'000	2009 US\$'000
Assets			
Non-current assets			
Intangible fixed assets	5	<u>73,837</u>	<u>19,376</u>
		<u>73,837</u>	<u>19,376</u>
Current assets			
Trade and other receivables		1,549	1,209
Cash and cash equivalents	6	<u>199,319</u>	<u>51,241</u>
		<u>200,868</u>	<u>52,450</u>
Total assets		<u>274,705</u>	<u>71,826</u>
Equity and liabilities			
Equity attributable to owners of the parent			
Called up share capital		7,691	4,316
Share premium account		268,624	66,337
Share based payment reserve		3,175	1,012
Foreign currency translation reserve		(19)	(17)
Accumulated losses		<u>(7,431)</u>	<u>(2,416)</u>
Attributable to equity shareholders		<u>272,040</u>	<u>69,232</u>
Non-current liabilities			
Liability for share-based payment		11	-
Current liabilities			
Trade and other payables		<u>2,654</u>	<u>2,594</u>
Total liabilities		<u>2,665</u>	<u>2,594</u>
Total equity and liabilities		<u>274,705</u>	<u>71,826</u>



GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital US\$'000	Share premium US\$'000	Share based payment reserve US\$'000	Foreign exchange reserve US\$'000	Accumulated losses US\$'000	Total equity attributable to equity holders of the parent US\$'000
Balance at 1 January 2009	357	2,400	16	(11)	(774)	1,988
Loss for the year	-	-	-	-	(1,648)	(1,648)
Other comprehensive income	-	-	-	-	6	6
Total comprehensive loss for the year	-	-	-	-	(1,642)	(1,642)
Issue of share capital	3,959	69,568	-	-	-	73,527
Share issue costs	-	(5,631)	-	-	-	(5,631)
Issue of share options	-	-	996	-	-	996
Foreign exchange translation reserve	-	-	-	(6)	-	(6)
Balance at 31 December 2009	<u>4,316</u>	<u>66,337</u>	<u>1,012</u>	<u>(17)</u>	<u>(2,416)</u>	<u>69,232</u>
Balance at 1 January 2010	4,316	66,337	1,012	(17)	(2,416)	69,232
Loss for the year	-	-	-	-	(5,015)	(5,015)
Other comprehensive income	-	-	-	(2)	-	(2)
Total comprehensive loss for the year	-	-	-	(2)	(5,015)	(5,017)
Issue of share capital	3,375	212,987	-	-	-	216,362
Share issue costs	-	(10,700)	-	-	-	(10,700)
Issue of share options	-	-	2,163	-	-	2,163
Foreign exchange translation reserve	-	-	-	-	-	-
Balance at 31 December 2010	<u>7,691</u>	<u>268,624</u>	<u>3,175</u>	<u>(19)</u>	<u>(7,431)</u>	<u>272,040</u>



GROUP STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 US\$'000	2009 US\$'000
Cash flows from operating activities			
Group operating loss		(5,882)	(1,866)
Adjustment for:			
Gain on foreign exchange		(252)	(690)
Share-based payments		2,174	996
Write down of development costs		10	135
Increase in debtors		(340)	(1,120)
Increase in creditors		60	2,538
		<u>(4,230)</u>	<u>(7)</u>
Cash flows from investing activities			
Expenditure on exploration activities		(54,471)	(19,356)
Interest received		867	218
		<u>(53,604)</u>	<u>(19,138)</u>
Cash flows from financing activities			
Net proceeds from issue of share capital		205,662	67,896
		<u>205,662</u>	<u>67,896</u>
Net increase in cash and cash equivalents		147,828	48,751
Cash and cash equivalents at beginning of year		51,241	1,813
Effect of foreign exchange on cash and cash equivalents		250	677
		<u>250</u>	<u>677</u>
Cash and cash equivalents at end of year	6	<u>199,319</u>	<u>51,241</u>



NOTES

1. Basis of preparation

The financial information included in the results announcement has been extracted from the Group Financial Statements for the year ended 31 December 2010 - the accounting policies used are set out therein. The Group Financial Statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and are prepared on the historical cost basis. The accounting policies have been applied consistently by the Group.

Statement of compliance

As permitted by the European Union ("EU") and in accordance with AIM Rules, the Group Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations issued by the International Accounting Standards Board ("IASB") as adopted by the EU. The individual financial statements of the Company ("Company Financial Statements") have been prepared in accordance with Section 408 of the Companies Act 2006, which permits a company that publishes its company's and group's financial statements together to take advantage of the exemption from presenting to its members its company statement of comprehensive income and related notes that form part of the approved company financial statements. The IFRS adopted by the EU as applied by the Company and the Group in the preparation of these Financial Statements are those that were effective from 1 January 2010.

Functional and presentation currency

The Consolidated Financial Statements are presented in US dollars ("US\$") which is the presentational currency of the Group adopted during 2009. The reason for the choice of US\$ as the presentational currency is because US\$ is the functional currency for the Group as its main exploration commitments are in US\$.

The values in the Financial Statements are rounded to the nearest thousand (US\$'000) except where otherwise indicated.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

- » IFRS 3 (revised) "Business Combinations" effective for reporting periods beginning after 1 July 2009;
- » IFRS 27 (revised) "Consolidated and Separate Financial Statements" effective 1 July 2009;
- » IAS 28 "Investments in Associates" effective for reporting periods beginning after 1 July 2009;
- » IAS 31 "Interests in Joint Ventures" effective for reporting periods beginning after 1 July 2009;
- » IFRIC 17 "Distribution of Non-cash Assets to Owners" effective for reporting periods beginning after 1 July 2009;
- » IFRIC 18 "Transfers of Assets from Customers" effective for reporting periods beginning after 1 July 2009;



- » IFRIC 9 “Reassessment of Embedded Derivatives” effective for reporting periods beginning after 1 July 2009;
- » IAS 39 “Financial Instruments, Recognition and Measurement” effective 1 July 2009;
- » IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” effective 1 July 2009;
- » IAS 1 (amendment) “Presentation of Financial Statements” effective 1 January 2010;
- » IAS 36 (amendment) “Impairment of Assets” effective 1 January 2010;
- » IFRS 2 (amendment) “Group Cash-Settled Share-based Payment” effective 1 January 2010; and
- » IFRS 5 (amendment) “Non-current Assets Held for Sale and Discontinued Operations” effective 1 January 2010.

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

IFRS 3 (revised), “Business Combinations”

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the Statement of Comprehensive Income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs are expensed.

IAS 27 (revised), “Consolidated and Separate Financial Statements”

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

Standards issued but not yet effective

The following standards, amendments and interpretations applicable to the Group are in issue but are not yet effective and have not been early adopted in these Financial Statements. They may result in consequential changes to the accounting policies and other note disclosures. We do not expect the impact of such changes on the Financial Statements to be material. These are outlined in the table below:

Reference	Title	Summary	Application date of standard	Application date for Group
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets	Increases disclosure requirements for transactions involving transfers of financial assets	Annual commencing 1 July 2011	1 January 2012

IFRS 9	Financial Instruments	That financial instruments within scope of IAS 39 are measured at amortised cost	Periods commencing after 1 January 2013	1 January 2013
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Accounting guidance for the extinguishment of a financial liability by issue of equity	Annual periods commencing after 1 July 2010	1 January 2011
IAS 24 (revised)	Related Party Disclosures	Revised definition of related parties	Annual periods beginning on or after 1 January 2011	1 January 2011

2. Operating loss

	2010	2009
	US\$'000	US\$'000
Operating loss is stated after charging/(crediting):		
Gain on foreign currency translation	(252)	(690)
Fees payable to the Company's auditors for audit of the parent company and the consolidated financial statements:		
– Current auditors	89	44
– Former auditors	1	(5)
Fees payable to the Company's auditors for other services:		
– Corporate tax services	13	—
– Employment tax services	5	—
– Other services pursuant to legislations	8	—
Write down of deferred exploration costs	10	135
Fees paid to Mazars for corporate finance services amounting to US\$ nil (2009: US\$133,397) has been debited to the share premium account.		

3. Tax on loss on ordinary activities

No charge to taxation arises in the years ended 31 December 2010 or 31 December 2009 as there were no taxable profits in either year.

Tax reconciliation

	2010	2009
	US\$'000	US\$'000
Loss before tax	(5,015)	(1,642)
Effective tax charge at 28% (2009: 28%)	(1,404)	(460)
Effect of:		
– difference in tax rate compared with 27%	41	—



– non-taxable income	397	297
– tax effect of unrecognised deferred tax assets	974	163
– differences in overseas taxation rates	(8)	—
Effective tax rate	—	—

Tax losses brought forward at 31 December 2010 amount to US\$4.15 million.

4. Loss per share

The basic and weighted average number of Ordinary Shares used in the calculation of basic earnings per share are as follows:

	2010	2009
Loss after tax for the year attributable to equity holders of the parent (US\$'000)	(5,015)	(1,648)
Weighted average number of Ordinary Shares for the purpose of basic earnings per share	342,503,377	89,901,320
Basic loss per Ordinary Share (in US\$ cents)	(1.46)	(1.83)

Where a loss has occurred, basic and diluted earnings per share are the same because the outstanding share options and warrants are anti-dilutive. Accordingly, diluted earnings per share equals the basic earnings per share.

5. Intangible fixed assets – Group

	Exploration costs 2010 US\$'000	Exploration Costs 2009 US\$'000
Cost		
At 1 January	19,376	142
Foreign exchange differences	—	13
Impairment	(10)	(135)
Additions	54,471	19,356
At 31 December	73,837	19,376
Net book value at 31 December	73,837	19,376

Expenditure on exploration activities is deferred on areas of interest until a reasonable assessment can be determined of the existence or otherwise of economically recoverable reserves. No amortisation has been charged in the period. The Directors have reviewed the carrying values of deferred exploration expenditure and consider it to be fairly stated at 31 December 2010.



Recoverability of the intangible assets is dependent upon the successful development or disposal of the oil, gas and mineral interests held. Included in the additions of exploration cost is non-audit services amounted to US\$7,000 (2009: US\$ nil) paid to the Company's auditors.

The impairment of US\$10,000 (2009: US\$135,000) arose in the intangible asset held by one of the subsidiaries, Lapp Plats AB, following the management decision to relinquish Swedish exploration licences held in Lapp Plats AB.

6. Cash and cash equivalents

	Group 2010 US\$'000	Group 2009 US\$'000	Company 2010 US\$'000	Company 2009 US\$'000
Cash at bank held under escrow	2	35,113	—	—
Cash at bank	199,317	16,128	199,315	16,127
	199,319	51,241	199,315	16,127

The Group is a partner in a consortium that is committed to onshore and offshore exploration programmes in East Africa and had lodged US\$35,113,448 in 2009 to a bank escrow account that was allocated exclusively to meet the Group's share of its commitments. In April 2011, the Group closed the escrow account as it was no longer required for meeting such commitments.

7. Approval of financial statements

The financial information included in this report has been extracted from the Group Financial Statements for the year ended 31 December 2010 which were approved by the Board of Directors on 22 May 2011. The auditors have reported on the 2009 and 2010 Financial Statements and they have issued an unqualified report which will not contain statements under section s498 (2) and (3) of the Companies Act 2006 or equivalent preceding legislation. The information included does not constitute the Company's statutory financial statements as defined in Section 240 of the Companies Act 2006. The statutory accounts for 2009 have been delivered to the Registrar of Companies and the statutory accounts for 2010 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The 2010 Annual Report and financial statements will be posted to shareholders shortly. Copies will be available from the Company's registered office and on our website at www.cove-energy.com.