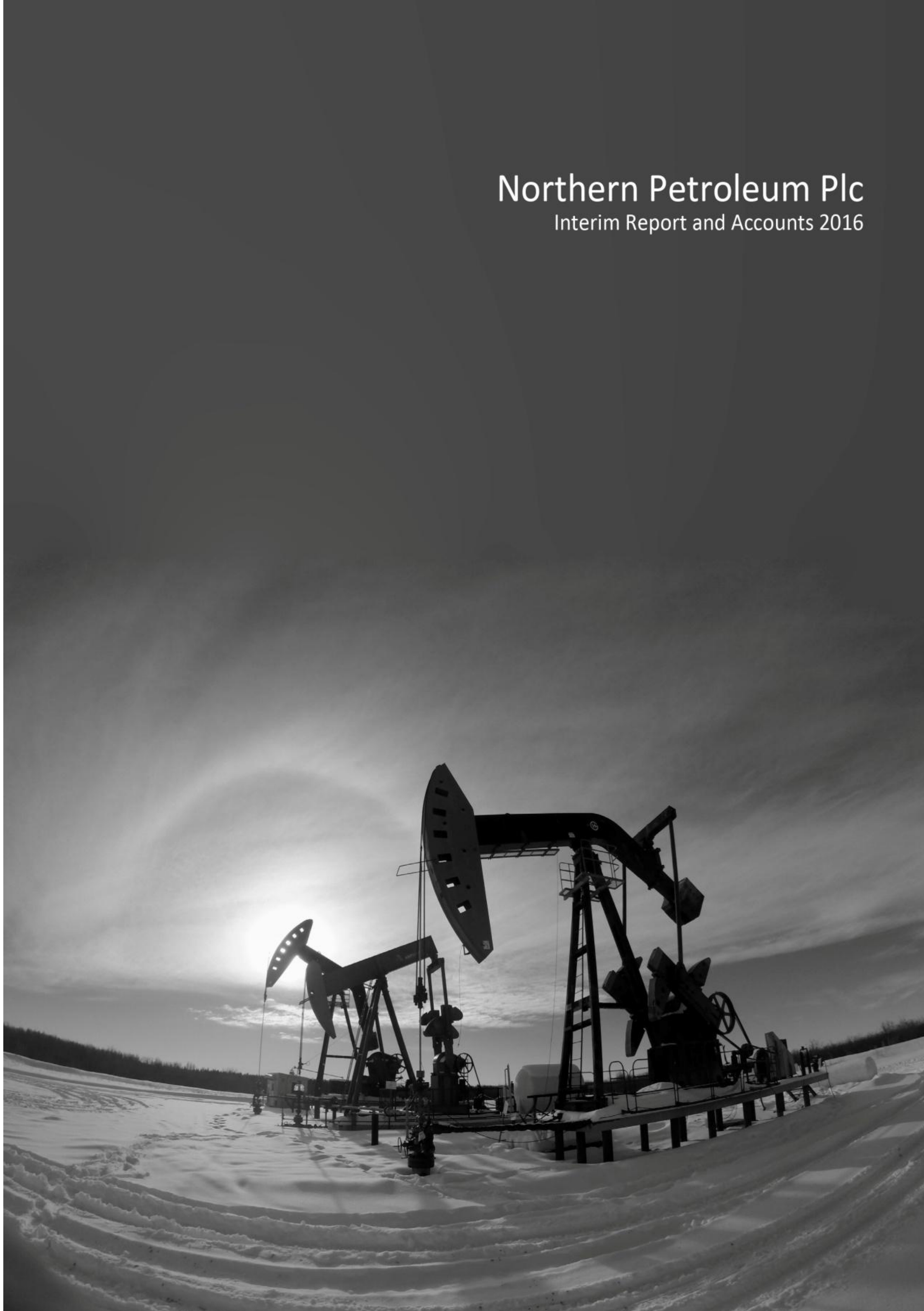
Northern Petroleum Plc

Interim Report and Accounts 2016



Northern Petroleum Plc

Production led growth

Northern Petroleum is an oil and gas exploration and production company quoted on the AIM Market of the London Stock Exchange. The Group is focused on production and development activities which deliver cash flow and demonstrable value for shareholders.

In conjunction with production activity, Northern Petroleum continues to mature exploration and appraisal projects which can be farmed out and drilled in order to generate the possibility of very high returns on investment.

Northern Petroleum's key assets are in Canada, an onshore oil production play with significant growth potential, and in Italy, with both onshore and offshore permits and applications containing exploration prospects and discovered oil fields.

Interim Highlights

Operations

- Completion of production asset acquisition in the Rainbow area, Alberta
- Successful planning and execution of a multi well workover programme
- Significant increase in production from approximately 150 bopd to over 400 bopd
- Restart of second production facility in the Rainbow area
- Restart of production in the Virgo area
- Average production for the first six months of the year was approximately 300 bopd

Finance

- Revenue of $1.5 million for the first six months of the year
- Gross profit of $0.4 million before depletion and amortisation
- Successful cashflow management while $1.4 million on deposit with the regulator in Alberta
- Cash on the balance sheet at 30 June 2016 was $0.5 million

Corporate

- Administrative costs reduced by 55 per cent. when compared to the first six months of 2015
- Annual Group general and administrative costs below $3.0 million

Post Interim Activities

- Work programme to reinstate three production wells completed
- Water flood pipeline repair completed with two wells brought into production
- $1.2 million returned from Alberta regulator

Interim Report Management Statement

The first half of 2016 has been positive for the Group despite the continuing poor macro environment. The Group completed an asset acquisition in the Rainbow area of Alberta near the existing Virgo operations and executed a well workover programme. Growth in production was achieved through a programme of repairs and maintenance to wells and facilities. These operations more than doubled the production from the asset and despite a turbulent market, where the West Texas Intermediate benchmark crude price ("WTI") dropped to less than $30 per barrel during February, the Group exited the period with a gross profit. Subsequently, work has started to position the Group to again double production and provide free cashflow for further investment in Canada and support for other areas of the business, particularly the Italian assets.

Operations

During January, the Group acquired assets which at the time were producing approximately 150 barrels of oil per day and contained 1.1 million barrels ("mmbbls") of proven plus probable oil reserves, close to the Group's Virgo assets in the Rainbow area. The acquisition included a number of wells, pipeline infrastructure and two production facilities with a direct tie-in to the national pipeline network. A small, low cost work programme of well and facility repairs was conducted through the remainder of winter and into spring, initially increasing the production to over 400 bopd.

Production continued throughout the second quarter, with some downtime due to torrential rains during May and June which affected the wells not tied in to the pipeline infrastructure due to trucking restrictions. With the increase in production during the second quarter and despite the poor weather conditions, the Group still averaged approximately 300 bopd for the first half of 2016. The Group has also secured contracts from local operators to process and ship their crude, generating additional income from the facilities.

In Italy, progress continued with the development of an environmental impact assessment for the drilling of the Giove appraisal well, which is planned to be submitted before the end of the year. Onshore in the Po Valley, Shell continued to evaluate the Cascina Alberto exploration permit in order to develop the additional seismic programme required to more thoroughly review the previously identified 300 mmbbls prospect. The Group is carried by Shell for a 20 per cent. share of the Cascina Alberto permit including seismic acquisition up to $4 million and an exploration well up to $50 million.

Corporate

The focus of the Group has continued to be on cost reduction and ensuring that the organisation is fit for purpose. Staff and infrastructure reductions were made, including the implementation of a cost effective accounting system designed for the Canadian market. This further reduced the overall corporate general and administration cost to below $3 million on an annualised basis.

Financial

Following the completion of the asset acquisition in the Rainbow area and the subsequent successful workover programme, total revenue for the first six months of the year was $1.5 million, reflecting an average production rate of approximately 300 bopd. Even with the oil price for WTI averaging approximately $39 per barrel for the period, a gross profit before depletion and amortisation of $405,000 was generated.

The Group maintained a strict focus on costs, which resulted in a 55 per cent. reduction in the administrative expenses for the first six months of the year.

The biggest cash movement in the period was an abandonment deposit of approximately $1.2 million with the Alberta Energy Regulator required to complete the asset acquisition in Rainbow. Approximately $0.2 million was already on deposit with the regulator from the prior year. Following the increase in production $1.2 million was returned after the period end in September.

Interim Report Management Statement

Outlook

With production at the current level of approximately 400 bopd, the Group can sustain its financial position with a WTI oil price of approximately $50 per barrel. As production grows, the Rainbow asset's fixed cost base does not increase significantly, therefore the operating cost increase per additional production barrel is less than $10. This makes incremental production from this point forward economically attractive, and something that is achievable and relatively low cost.

The Group is now developing a winter work programme to double production again to 800 bopd which will then provide free cashflow for investment. This will enable the Group to fund activities in Alberta and other areas such as the 3D seismic programme in the southern Adriatic. Funding for this programme will be achieved through a combination of working capital, debt, a farmout and equity as is considered most appropriate at the time.

The work conducted in the first half of 2016 has enabled the Group to survive in these extreme market conditions and helped establish the platform for further growth. This work is continuing in order to generate strong positive cash flow and core value for shareholders.

Condensed Consolidated Statement of Profit or Loss

for the six months ended 30 June 2016

	Notes	**6 months ended 30 June 2016 (Unaudited) $'000**	6 months ended 30 June 2015 (Unaudited) $'000
Revenue		**1,453**	223
Production costs		**(1,048)**	(520)
Depletion and amortisation – plant, property and equipment		**(310)**	(64)
Gross profit / (loss)		**95**	(361)
Pre-licence costs		**(7)**	(4)
Exploration costs		**(62)**	-
Administrative expenses		**(1,116)**	(2,462)
Loss on disposal of assets		**-**	(44)
Other operating income		**-**	814
Loss from operations		**(1,090)**	(2,057)
Finance costs	**2**	**(135)**	(508)
Loss before tax		**(1,225)**	(2,565)
Tax credit		**-**	-
Loss for the period		**(1,225)**	(2,565)
Attributable to			
Equity shareholders of the Company		**(1,177)**	(2,575)
Non-controlling interests		**(48)**	10
		(1,225)	(2,565)
Earnings per share			
Basic earnings per share on loss for the year	**3**	**(0.8) cents**	(2.7) cents

All results are from continuing activities. As the Group is loss making, there is no dilution of earnings from potential ordinary shares and diluted earnings per share has not been presented.

Notes 1 to 7 form an integral part of this report.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2016

	6 months ended 30 June 2016 (Unaudited) $'000	6 months ended 30 June 2015 (Unaudited) $'000
Loss for the period	**(1,225)**	(2,565)
Other comprehensive profit / (loss)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**578**	(2,274)
Other comprehensive profit / (loss) for the year, net of income tax	**578**	(2,274)
Total comprehensive loss for the period	**(647)**	(4,839)
Attributable to:		
Equity shareholders of the Company	**(599)**	(4,849)
Non-controlling interests	**(48)**	10
	(647)	(4,839)

Notes 1 to 7 form an integral part of this report.

Condensed Consolidated Statement of Financial Position

at 30 June 2016

	Notes	At 30 June 2016 (Unaudited) $'000	At 31 December 2015 (Audited) $'000
Assets			
Non-current assets			
Intangible assets		**26,299**	25,749
Property, plant and equipment	**4**	**12,154**	4,045
		38,453	29,794
Current assets			
Inventories		**42**	13
Trade and other receivables		**2,079**	658
Cash and cash equivalents		**511**	2,417
		2,632	3,088
Total assets		**41,085**	32,882
Liabilities			
Current liabilities			
Trade and other payables		**2,514**	974
		2,514	974
Non-current liabilities			
Trade and other payables		**589**	553
Provisions		**8,524**	1,297
Deferred tax liabilities		**2,099**	2,066
		11,212	3,916
Total liabilities		**13,726**	4,890
Net assets		**27,359**	27,992
Capital and reserves			
Share capital		**9,034**	9,034
Share premium		**18,833**	18,833
Merger reserve		**14,190**	14,190
Share incentive plan reserve		**332**	349
Foreign currency translation reserve		**(8,348)**	(8,926)
Retained earnings and other distributable reserves		**(6,639)**	(5,493)
Equity attributable to owners of the parent		**27,402**	27,987
Non-controlling interests		**(43)**	5
Total equity		**27,359**	27,992

Notes 1 to 7 form an integral part of this report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2016

	6 months ended 30 June 2016 (Unaudited) $'000	6 months ended 30 June 2015 (Unaudited) $'000
Cash flows from operating activities		
Loss for the period	**(1,225)**	(2,565)
Tax credit	**-**	-
Depletion and amortisation	**310**	64
Depreciation – non-oil and gas property, plant and equipment	**93**	371
Loss on disposal of property, plant and equipment	**-**	44
Foreign exchange loss	**2**	429
Finance costs	**133**	79
Share-based payments	**14**	1
Net cash outflow before movements in working capital	**(673)**	(1,577)
Increase in inventories	**(27)**	-
(Increase) / decrease in trade and other receivables	**(145)**	1,017
Increase / (decrease) in trade and other payables	**1,501**	(3,951)
Net cash inflow/ (outflow) from changes in working capital	**1,329**	(2,934)
Taxes paid	**-**	-
Net cash inflow/ (outflow) from operating activities	**656**	(4,511)
Cash flows from investing activities		
Interest paid	**-**	(1)
Investments in property, plant and equipment	**(863)**	(3,946)
Expenditure on exploration and evaluation assets	**(224)**	(560)
Acquisition of Canadian business (note 5)	**(360)**	-
Canadian decommissioning deposit	**(1,165)**	-
Sale of property, plant and equipment	**-**	7
Net cash outflow from investing activities	**(2,612)**	(4,500)
Net decrease in cash and cash equivalents	**(1,956)**	(9,011)
Cash and cash equivalents at start of period	**2,417**	12,143
Effect of exchange rate movements	**50**	(139)
Cash and cash equivalents at end of period	**511**	2,993

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2016

	Share capital $'000	Share premium account $'000	Merger reserve $'000	Share incentive plan reserve $'000	Foreign currency translation reserve $'000	Retained earnings and other distributable reserves $'000	Total $'000	Non - controlling interests $'000	Total equity $'000
At 1 January 2016	**9,034**	**18,833**	**14,190**	**349**	**(8,926)**	**(5,493)**	**27,987**	**5**	**27,992**
Total comprehensive income for the period	-	-	-	-	**578**	**(1,177)**	**(599)**	**(48)**	**(647)**
Contributions by and distributions to owners of the Company									
Equity share warrants lapsed or cancelled	-	-	-	**(31)**	-	**31**	-	-	-
Share-based payments	-	-	-	**14**	-	-	**14**	-	**14**
Total contributions by and distributions to owners of the Company	-	-	-	**(17)**	-	**31**	**14**	-	**14**
At 30 June 2016	**9,034**	**18,833**	**14,190**	**332**	**(8,348)**	**(6,639)**	**27,402**	**(43)**	**27,359**

	Share capital $'000	Share premium account $'000	Merger reserve $'000	Share incentive plan reserve $'000	Foreign currency translation reserve $'000	Retained earnings and other distributable reserves $'000	Total $'000	Non - controlling interests $'000	Total equity $'000
At 1 January 2015	8,225	17,312	14,190	484	(5,026)	4,489	39,674	(7)	39,667
Total comprehensive income for the period	-	-	-	-	(2,274)	(2,575)	(4,849)	10	(4,839)
Contributions by and distributions to owners of the Company									
Equity share warrants lapsed or cancelled	-	-	-	(93)	-	93	-	-	-
Share-based payments	-	-	-	1	-	-	1	-	1
Total contributions by and distributions to owners of the Company	-	-	-	(92)	-	93	1	-	1
At 30 June 2015	8,225	17,312	14,190	392	(7,300)	2,007	34,826	3	34,829

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2016

1. Basis of preparation

This unaudited condensed consolidated interim financial information has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively EU IFRSs). The principal accounting policies used in preparing the interim results are unchanged from those disclosed in the Group's Annual Report for the year ended 31 December 2015. These statutory accounts are available on the Company's website (www.northernpetroleum.com) or by application to the Company's registered office.

The financial information for the six months ended 30 June 2016 and 30 June 2015 is unaudited and does not constitute statutory financial statements of Northern Petroleum Plc and its subsidiaries. The comparative financial information for the full year ended 31 December 2015 has been derived from the statutory financial statements for that period. A copy of those statutory financial statements has been delivered to the Registrar of Companies. The auditor reported on those accounts; the report was unqualified and did not contain any statement under section 498(2) or 498(3) of the Companies Act 2006. However, an emphasis of matter with regards to a material uncertainty in the application of the going concern basis of accounting was included in the audit report.

Adoption of new and revised standards

A number of new standards, amendments to existing standards and interpretations were applicable from 1 January 2016. The adoption of these new standards and amendments did not have a material impact on the Group's condensed financial statements for the half-year ended 30 June 2016.

2. Finance costs and income

	6 months ended 30 June 2016 (Unaudited) $'000	6 months ended 30 June 2015 (Unaudited) $'000
Finance costs		
Other interest payable	**(3)**	(4)
Foreign exchange losses	**(2)**	(429)
Unwinding of discount on decommissioning provisions	**(84)**	(16)
Unwinding of discount on below market interest rate government loans	**(46)**	(59)
	(135)	(508)

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2016

3. Earnings per share

Basic earnings per share amounts are calculated by dividing profit or loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. The calculation of the dilutive potential ordinary shares related to employee and director share option plans includes only those warrants with exercise prices below the average share trading price for each period.

	6 months ended 30 June 2016 (Unaudited) $'000	6 months ended 30 June 2015 (Unaudited) $'000
Net loss attributable to equity holders used in basic calculation	**1,177**	2,575
Net loss attributable to equity holders used in dilutive calculation	**1,177**	2,575
	No.'000s	No.'000s
Basic weighted average number of shares	**148,545**	95,366
Dilutive potential of ordinary shares:		
Warrants exercisable under Company schemes	**-**	-
Diluted weighted average number of shares	**148,545**	95,366

At 30 June 2016 there were 666,706 options and no warrants with exercise prices below the average share trading price for those years, (2015: nil), hence the number of potential dilutive ordinary shares is 666,706 (2015: nil).

	6 months ended 30 June 2016 (Unaudited) $	6 months ended 30 June 2015 (Unaudited) $
Earnings per share		
Basic earnings per share on loss for the year	**(0.8) cents**	(2.7) cents
Diluted earnings per share on loss for the year	**(0.8) cents**	(2.7) cents

Notes to the Condensed Consolidated Interim Financial Statements Continued

for the six months ended 30 June 2016

4. Property, Plant and Equipment

	30 June 2016 (Unaudited) $'000	31 December 2015 (Audited) $'000
Oil and gas assets	**12,041**	3,840
Computer and office equipment and leasehold improvements	**113**	205
	12,154	4,045

The increase in oil and gas assets in the period includes the assets acquired in Alberta, Canada, see note 5 below.

5. Canadian acquisition

On 12 November 2015 the Group announced it had agreed an acquisition of production and reserves in Alberta, Canada, conditional on financing. The Group successfully raised new equity finance and on 15 December signed a sale and purchase agreement and paid an initial consideration. On 21 January 2016 the Alberta Energy Regulator ("AER") transferred a number of Rainbow area leases in Alberta, Canada to the Group's Canadian subsidiary, Ouro Preto Resources Inc. ("OP") following the deposit by OP with the AER of $1,165,000. The payment of an abandonment deposit to the AER was a final step in the regulatory approval of the acquisition of the leases. The acquisition of the Rainbow leases has enabled the Group to substantially increase its asset base in Alberta. The Rainbow Assets include a total of 117 operated and 41 non-operated wells, of which approximately one third are either currently in production or are believed by the Directors to have the potential of being brought back into production. The remaining wells are either suspended or already abandoned and will be reviewed for future production potential.

The acquisition consideration below is considered equal to the aggregate of the provisional fair values of the assets and liabilities acquired, with no goodwill arising, and these have been recorded as shown further below. The liabilities include the provisions for future abandonment of the wells and facilities. OP has commissioned a new reserves report for the assets acquired from a leading independent Calgary reserves auditor. The new reserves report will be used to reassess the fair valuations of the assets acquired which will form the basis of the final acquisition accounting to be reported in the 31 December 2016 Group consolidated accounts.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2016

Consideration:

	21 January 2016 $'000
Cash	**360**

The Canadian Dollar consideration was settled for $513,000 which equates to US $360,000 at the prevailing exchange rate of $1.4244 Canadian Dollars to $1 US Dollar on 21 January 2016.

Identifiable assets acquired and liabilities assumed:

	21 January 2016 Recognised values on acquisition $'000
Property, plant and equipment - oil & gas assets	**7,616**
Trade and other receivables - prepayments	**56**
Provisions - decommissioning	**(7,312)**
	360

No goodwill has been recognised as a result of the acquisition and no significant acquisition related costs have been incurred at 30 June 2016.

The revenue generated and expenses incurred by this operation since the date of acquisition (21 January to 30 June 2016) were $1,269,000 and $1,260,000 respectively. Of the $1,260,000 expenses, $809,000 relates to production costs, $102,000 relates to administration and management time recharged by Northern Petroleum Plc, $269,000 relates to depletion and amortisation of plant property and equipment and $80,000 relates to finance costs for the unwinding of discount on decommissioning provisions. Cash outflow in the period comprised net revenue and investments in oil and gas assets. If the acquisition had occurred on 1 January 2016, management estimates that consolidated revenue for the first half year would have been $64,000 higher and the consolidated costs for the period would have been $111,000 higher.

Notes to the Condensed Consolidated Interim Financial Statements Continued

for the six months ended 30 June 2016

6. Approval by directors

The interim results for the six months ended 30 June 2016 were approved by the Directors on 28 September 2016.

7. Availability of interim report

The Interim Report will be made available in electronic format on the Company's website, www.northernpetroleum.com. Further copies will be available on request by application to the Company Secretary at the Company’s registered office, being Chester House, Unit 3.01, Kennington Park, London SW9 6DE.

Directors, Offices and Advisers

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K R Bush
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