Northern Petroleum Plc

Interim Report and Accounts 2015

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 are expected to deliver cash flow and demonstrable value for shareholders in a reasonable timeframe.

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.

Cash Flow

Capital Management

Investor Return

Interim Highlights

Canadian Operations

- 102/11-30 well drilled, completed and tested
- Production shut in to evaluate potential to reduce operating costs
- 100/16-19 production restarted in June
- Subsurface technical review initiated to establish future development plan
- Re-start of production on 102/15-23 well awaiting remedial work on pipeline spur by local infrastructure operator

Italian Operations

- Farmed out 80 per cent of the onshore Cascina Alberto permit to Shell Italia
- EIA approval for Italian 3D seismic acquisition in the southern Adriatic
- Five exploration application EIAs approved in the southern Adriatic
- Initiated a joint technical study with Schlumberger and GEPlan in the Sicily Channel

Finance

- $850,000 received from the farm out of Cascina Alberto in northern Italy
- Revenue ($0.2 million) and operating costs ($0.6 million) reflect the limited production during the period
- Cash on the balance sheet at the period end was $3.0 million (31 December 2014 $12.1 million)
- Reduction in general and administrative costs undertaken during the period

Corporate

- Continued record of no accidents or incidents
- Further cost review and office relocation
- Reduction in staff and board

To be a focused exploration and production company, achieving material growth, with a respected reputation

Interim Report Management Statement

During the first six months of 2015, the macro environment for the upstream oil and gas industry has remained extremely challenging. The West Texas Intermediate ("WTI") benchmark crude oil spot price averaged approximately US$53 per barrel, nearly 50 per cent less than the equivalent period for 2014. The collapse in the oil price has been driven by the influence of many global factors on both the supply and demand side of the industry, and the near term forecast remains volatile. As a result of this macro environment the Group has taken a series of steps to reduce the cost base at both an operational and corporate level.

Canada

Production from the Group's existing wells was shut in towards the end of January. The wells were being produced using expensive rental equipment and production was being trucked, making production only marginally economic ahead of being tied into local infrastructure. With the drop in oil price, only one of the wells was tied in as the capital payback period on the investment required to tie in the other wells had significantly increased. Following the temporary halting of production, the rental equipment was removed from the remaining wells and the ongoing running cost of the operations in the field was reduced to as low as possible.

Subsequent to shutting these wells in, the operator of the infrastructure detected a problem with part of their pipeline network, requiring 102/15-23 to be shut in as well. This meant that for the majority of the period, the Group had no production. Following a detailed review of all options, economic production was restarted in June from the 100/16-19 well, enabled by the purchase of a low cost production vessel that removed the need for high cost rental equipment. Production from the 102/15-23 well was expected to restart during the third quarter, however the operator of the local infrastructure is undertaking a wider review of the pipeline network following initial repairs and the restart of production will occur after the infrastructure operator makes the necessary repairs or the Group implements an alternative offtake solution.

During the first quarter of the year, the 102/11-30 well was drilled into a previously developed reef. The well encountered the reservoir on prognosis, but problems experienced when cementing the liner over the reservoir section lead to difficulties in interpreting the well test. The well delivered nearly 100 barrels of oil per day during the test with 85 per cent water production, but it was not possible to determine where the water was coming from due to the cementing issue. As a result, the well was suspended pending a subsurface review to understand the water production mechanism and determine the optimum way to produce the well with minimal water production.

Italy

While progress in Canada has proven challenging, significant progress has been made in Italy. The Group farmed out an 80 per cent interest in the Cascina Alberto permit to Shell for a cash contribution of $850,000 and a carry, effectively through to the end of the drilling of any exploration well on the permit. The Group has also received the approval of six environmental impact assessments ("EIA") in the southern Adriatic, one for the proposed 3D seismic programme across the Giove oil discovery and Cygnus exploration prospect, and five others for application areas. Approval of these EIA's allows the Group to plan the seismic programme and work with the Ministry of Economic Development to turn the applications into permits thus providing the Group with one of the largest contiguous areas of exploration and appraisal acreage in the Adriatic.

Further to this, and as evidence of the general improvement in the progress of the industry in Italy, several companies have recently received EIA approvals for various upstream projects and drilling has recommenced offshore.

Corporate

At a corporate level, the Group has remained extremely focused on the running costs of the business. Further reductions in cost have been made during the first half of the year including an additional reduction in the number of staff and an office move to a much more cost effective location.

Interim Report Management Statement

Financial

The revenue for the first six months of the year of $0.2 million reflects the shut in of all the producing wells at the end of January with one well re-starting production in June. The operating expense of $0.6 million reflects the fixed level of costs still incurred during this shut-in period, in addition to the operational cost of shutting the wells in and an element of the work undertaken to re-start the 100/16-19 well. Other income during the period represents the cash received for the farm out of the Cascina Alberto permit. The continued strengthening of the US dollar during the first half of the year contributed to the majority of the finance costs of $0.5 million and the loss of $2.3 million on the revaluation of the balance sheet as shown in the statement of Other Comprehensive Income. The Group's treasury policy is to match the currencies of the cash held with the likely currency requirements of forecast costs and cashflow.

The reduction in cash held on the balance sheet from $12.1 million as at 31 December 2014 to $3.0 million as at 30 June 2015 is mainly due to the capital expenditure on the 102/11- 30 well drilled in February and the tie-in of the 102/15-23 well, which combined totalled approximately $3.9 million. The paying down of a significant amount of mainly Canadian creditors from year end amounted to $4.0 million and ongoing general and administrative costs included some restructuring costs as the Group further reduced its staff headcount and moved its London office. With $3 million in cash on the balance sheet at the period end, a number of initiatives are actively being pursued to bring necessary further capital resources into the Group to help build future production and cashflow and fund the business.

Summary and outlook

With the outlook for crude oil prices remaining uncertain into next year, the focus of the business is on minimising the cost of development and production in order to maximise the value of each barrel produced.

The Group's overhead must also be kept as low as possible without losing the resources necessary to grow both core asset groups.

The Group is looking at a number of different opportunities to grow the production base in Canada, which will strengthen the financial position of the business, and also advance the Italian assets now that the industrial climate in country has improved.

Condensed Consolidated Statement of Profit or Loss

for the six months ended 30 June 2015

	Notes	**6 months ended 30 June 2015 (Unaudited) $'000**	6 months ended 30 June 2014 (Unaudited) $'000
Revenue		**223**	1,131
Production costs including depletion and amortisation		**(584)**	(841)
Cost of sales		**(584)**	(841)
Gross (loss) / profit		**(361)**	290
Pre-licence costs		**(4)**	(63)
Administrative expenses		**(2,063)**	(3,617)
Loss on disposal of assets		**(44)**	(41)
Other operating income		**814**	-
Other operating expenses		**(399)**	(444)
Impairment losses		**-**	(92)
Loss from operations		**(2,057)**	(3,967)
Finance costs	**2**	**(508)**	(88)
Finance income	**2**	**-**	240
Loss before tax		**(2,565)**	(3,815)
Tax credit		**-**	34
Loss for the period		**(2,565)**	(3,781)
Attributable to			
Equity shareholders of the Company		**(2,575)**	(3,764)
Non-controlling interests		**10**	(17)
		(2,565)	(3,781)
Earnings per share			
Basic earnings per share on loss for the year	**3**	**(2.7) cents**	(3.9) 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 2015

	6 months ended 30 June 2015 (Unaudited) $'000	6 months ended 30 June 2014 (Unaudited) $'000
Loss for the period	**(2,565)**	(3,781)
Other comprehensive loss:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(2,274)**	(296)
Other comprehensive loss for the year, net of income tax	**(2,274)**	(296)
Total comprehensive loss for the period	**(4,839)**	(4,077)
Attributable to:		
Equity shareholders of the Company	**(4,849)**	(4,060)
Non-controlling interests	**10**	(17)
	(4,839)	(4,077)

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

Condensed Consolidated Statement of Financial Position

at 30 June 2015

	Notes	At 30 June 2015 (Unaudited) $'000	At 31 December 2014 (Audited) $'000
Assets			
Non-current assets			
Intangible assets	4	30,192	32,347
Property, plant and equipment	5	7,432	3,994
		37,624	36,341
Current assets			
Trade and other receivables		515	1,573
Cash and cash equivalents		2,993	12,143
		3,508	13,716
Total assets		41,132	50,057
Liabilities			
Current liabilities			
Trade and other payables		1,292	5,233
		1,292	5,233
Non-current liabilities			
Trade and other payables		890	930
Provisions		1,423	1,300
Deferred tax liabilities		2,698	2,927
		5,011	5,157
Total liabilities		6,303	10,390
Net assets		34,829	39,667
Capital and reserves			
Share capital		8,225	8,225
Share premium		17,312	17,312
Merger reserve		14,190	14,190
Share incentive plan reserve		392	484
Foreign currency translation reserve		(7,300)	(5,026)
Retained earnings and other distributable reserves		2,007	4,489
Equity attributable to owners of the parent		34,826	39,674
Non-controlling interests		3	(7)
Total equity		34,829	39,667

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

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2015

	6 months ended 30 June 2015 (Unaudited) $'000	6 months ended 30 June 2014 (Unaudited) $'000
Cash flows from operating activities		
Loss for the period	**(2,565)**	(3,781)
Tax credit	**-**	(34)
Depletion and amortisation	**64**	206
Depreciation – non-oil and gas property, plant and equipment	**371**	557
Impairment losses on intangibles	**-**	92
Impairment losses on investments	**-**	34
Loss on disposal of property, plant and equipment	**44**	7
Foreign exchange loss / (gain)	**429**	(235)
Finance income	**-**	(5)
Finance costs	**79**	88
Share-based payments	**1**	11
Net cash outflow before movements in working capital	**(1,577)**	(3,060)
Increase in inventories	**-**	(3)
Decrease / (increase) in trade and other receivables	**1,017**	(1,207)
(Decrease) / increase in trade and other payables	**(3,951)**	1,609
Net cash (outflow)/ inflow from changes in working capital	**(2,934)**	399
Taxes paid	**-**	-
Net cash outflow from operating activities	**(4,511)**	(2,661)
Cash flows from investing activities		
Interest received	**-**	5
Interest paid	**(1)**	-
Investments in property, plant and equipment	**(3,946)**	(80)
Expenditure on exploration and evaluation assets	**(560)**	(11,469)
Sale of other investments	**-**	150
Sale of property, plant and equipment	**7**	-
Net cash outflow from investing activities	**(4,500)**	(11,394)
Cash flows from financing activities		
Capital contributions from non-controlling interests	**-**	131
Proceeds from award of government grants and loans	**-**	401
Net cash inflow from financing activities	**-**	532
Net decrease in cash and cash equivalents	**(9,011)**	(13,523)
Cash and cash equivalents at start of period	**12,143**	35,841
Effect of exchange rate movements	**(139)**	(316)
Cash and cash equivalents at end of period	**2,993**	22,002

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2015

	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**
Changes in ownership interests in subsidiaries									
Capital contributions from non-controlling interests	-	-	-	-	-	-	-	-	-
Acquisition of non-controlling interests without a change in control	-	-	-	-	-	-	-	-	-
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-
At 30 June 2015	**8,225**	**17,312**	**14,190**	**392**	**(7,300)**	**2,007**	**34,826**	**3**	**34,829**

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2014

	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 2014	**8,225**	**17,312**	**14,190**	**861**	**(619)**	**47,062**	**87,031**	**15,742**	**102,773**
Total comprehensive income for the period	-	-	-	-	**(296)**	**(3,764)**	**(4,060)**	**(17)**	**(4,077)**
Contributions by and distributions to owners of the Company									
Equity share warrants lapsed or cancelled	-	-	-	**(176)**	-	**176**	-	-	-
Share-based payments	-	-	-	**11**	-	-	**11**	-	**11**
Total contributions by and distributions to owners of the Company	-	-	-	**(165)**	-	**176**	**11**	-	**11**
Changes in ownership interests in subsidiaries									
Capital contributions from non-controlling interests	-	-	-	-	-	**(11)**	**(11)**	**11**	-
Acquisition of non-controlling interests without a change in control*	-	-	-	-	-	-	-	**131**	**131**
Total changes in ownership interests in subsidiaries	-	-	-	-	-	**(11)**	**(11)**	**142**	**131**
At 30 June 2014	**8,225**	**17,312**	**14,190**	**696**	**(915)**	**43,463**	**82,971**	**15,867**	**98,838**

* Increase in equity in Northpet Investments Limited.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2015

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 2014. 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 2015 and 30 June 2014 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 2014 has, however, 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's report on those accounts was unqualified, did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2)-(3) of the Companies Act 2006.

Adoption of new and revised standards

In the current year, the following new and revised standards and interpretations are effective and have been adopted but have had no effect on the amounts reported in these financial statements:

- IAS 19 Defined benefit Plans: Employee Contributions
- IFRS 2 Share-based Payment – Definition of vesting conditions
- IFRS 3 Business Combinations – Accounting for contingent consideration in a business combination
- IFRS 8 Operating Segments – Aggregation of operating segments
- IFRS 8 Operating Segments – Reconciliation of the total reportable segments assets to the entity's assets
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Revaluation method – proportionate restatement of accumulated depreciation/amortisation
- IAS 24 Related Party Disclosures – Key management personnel
- IFRS 13 Fair Value Measurement – Scope of paragraph 52 (portfolio exemption)
- IAS 40 Investment Property – Interrelationship between IFRS 3 and IAS 40 (ancillary services)

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2015

2. Finance costs and income

	6 months ended 30 June 2015 (Unaudited) $'000	6 months ended 30 June 2014 (Unaudited) $'000
Finance costs		
Other interest payable	**(4)**	(6)
Foreign exchange losses	**(429)**	-
Unwinding of discount on decommissioning provisions	**(16)**	-
Unwinding of discount on below market interest rate government loans	**(59)**	(82)
	(508)	(88)
Finance income		
Interest receivable	**-**	5
Foreign exchange gains	**-**	235
	-	240
Net finance income	**(508)**	152

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.

Notes to the Condensed Consolidated Interim Financial Statements Continued

for the six months ended 30 June 2015

	6 months ended 30 June 2015 (Unaudited) $'000	6 months ended 30 June 2014 (Unaudited) $'000
Net loss attributable to equity holders used in basic calculation	**2,575**	3,764
Net loss attributable to equity holders used in dilutive calculation	**2,575**	3,764
Basic weighted average number of shares	**95,366**	95,366
Dilutive potential of ordinary shares:		
Warrants exercisable under Company schemes	**-**	-
Diluted weighted average number of shares	**95,366**	95,366

At 30 June 2015 and 30 June 2014 there were no warrants with exercise prices below the average share trading price for those years, hence the number of potential dilutive ordinary shares is nil (2014: nil). The calculation of the diluted EPS assumes all criteria giving rise to the dilution of the EPS are achieved.

	6 months ended 30 June 2015 (Unaudited) $	6 months ended 30 June 2014 (Unaudited) $
Earnings per share		
Basic earnings per share on loss for the year	**(2.7) cents**	(3.9) cents
Diluted earnings per share on loss for the year	**(2.7) cents**	(3.9) cents

As the Group is loss making, there is no dilution of earnings from potential ordinary shares.

Notes to the Condensed Consolidated Interim Financial Statements
for the six months ended 30 June 2015

4. Intangible assets

	30 June 2015 (Unaudited) $'000	31 December 2014 (Audited) $'000
Exploration and evaluation assets	**29,323**	31,230
IT systems	**869**	1,117
	30,192	32,347

5. Property, Plant and Equipment

	30 June 2015 (Unaudited) $'000	31 December 2014 (Audited) $'000
Oil and gas assets	**7,125**	3,537
Computer and office equipment and leasehold improvements	**307**	457
	7,432	3,994

6. Approval by directors

The interim results for the six months ended 30 June 2015 were approved by the Directors on 29 September 2015.

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

Directors

J D Murphy
Non-executive Chairman

K R Bush
Chief Executive Officer

N T Morgan
Finance Director

I M Lanaghan
Non-executive Director

Company Secretary

W J Anderson

Registered office

Chester House, Unit 3.01
Kennington Park
1-3 Brixton Road
London SW9 6DE

Telephone: +44(0)20 7469 2900
Facsimile: +44(0)20 7469 2901
Email: info@northpet.com

Registered number

02933545

Legal form

Public limited company

Country of incorporation of Parent Company

England

Office Locations

Northern Petroleum London Office
Chester House, Unit 3.01
Kennington Park
1-3 Brixton Road
London SW9 6DE

Regional office, Canada
Ouro Preto Resources Inc
1000, 640 – 8th Avenue SW
Calgary, Alberta T2P 1G7
Canada

Regional office, Italy
Viale Trastevere 249
00153
Rome
Italy

Regional office, Australia
Paul M Tayler & Co PTY LTD
Level 2 Unit 15
210 Bagot Road
Subiaco
WA, 6008

Independent auditor

KPMG LLP
15 Canada Square
London E14 5GL

Bankers

HSBC Bank Plc
8 Canada Square
London E14 5GL

Lloyds Banking Group
10 Gresham Street
London EC2V 7AE

ATB Financial
3699 63 Ave NE
Calgary, AB
T3J 0G7

UniCredit Banca
Piazza Cavour B
Roma, Italy

Nominated Adviser and joint brokers

Westhouse Securities Limited
The Heron Tower
110 Bishopsgate
London EC2N 4AY

FirstEnergy Capital LLP (Joint Broker)
85 London Wall
London EC2M 7AD

Registrars

Neville Registrars
Neville House
Laurel Lane, Halesowen
West Midlands B63 3DA