NORTHERN PETROLEUM PLC

Interim Report 2013

Northern Petroleum Plc

Northern Petroleum Plc is an AIM quoted exploration and production company which is undergoing change to realise the significant latent value from its existing assets.

The Company owns both operated and non-operated equity interests in oil and gas licences around the world. The strategic focus for the business is at both ends of the exploration and production spectrum, i.e. higher risk and higher reward exploration and early stage appraisal projects, as well as lower risk production and development opportunities. This approach aims to produce a growing business with sustainable and increasing levels of production, as well as providing shareholders with exposure to potentially significant value enhancing events through exploration and appraisal opportunities. The geographic focus for the Group is in countries of relatively low political risk.

The Group places great importance upon maintaining a good environmental and safety record in all areas of its operations while seeking to foster strong relations with host governments and industry partners alike.

CONTENTS

01 Our Highlights

02 Interim Management Report

03 Condensed Consolidated Statement of Profit or Loss

04 Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

05 Condensed Consolidated Statement of Financial Position

06 Condensed Consolidated Cash Flow Statement

07 Condensed Consolidated Statement of Changes in Equity

08 Notes to the Condensed Consolidated Interim Financial Statements

See further information online at northpet.com

Our Highlights

"During the first half of this year a programme of change was initiated with respect to asset focus and board composition. This programme has continued during the second half of 2013 and we hope that, upon completion of the key objectives, value in the Group's assets will be more clearly demonstrated to the market and the business will be better positioned for the future."

Keith Bush Chief Executive Officer

Operational Highlights

- Average production was 872 barrels of oil equivalent per day for the six months to the end of June (2012: 886 boe/d), including deemed production from P12
- Installation of electric compression on the Brakel gas field in The Netherlands was completed in April and the field was brought back into production with an initial increase in production of approximately 25 per cent
- The GM-ES-3 well offshore French Guiana was completed in April and GM-ES-4 was spudded shortly thereafter in May
- In March Northern acquired the rights to 9,300 acres onshore Canada in a new oil redevelopment production play containing 19 well re-entry candidates and multiple new drill opportunities
- At the end of May the Company succeeded in a bid for a 1.4 million acre licence in the Otway Basin in South Australia containing an untested shale oil play

Corporate Highlights

- The Company announced that it had entered into discussions concerning the sale of the Company's Netherlands subsidiary
- The first of five recent board changes was made during the period
- A review and reduction of operational cost base commenced and is ongoing

Financial Highlights

- Total revenue and other operating income (P12 compensation) for the six months to June 2013 was €6.9 million (June 2012: €7.7 million, as restated)
- A net loss of €0.9 million was recorded for the period (June 2012: €0.2 million, as restated)
- Cash and cash equivalents as at 30 June 2013 were €17.4 million (31 December 2012: €22.5 million) and the loans and borrowing balance was a seismic loan from the Italian government of €1.6 million

Interim Management Report

There has been a lack of progress in some of the key areas of focus for the Company in recent years, and therefore a change in approach has been necessary in order to move the business forward. During the first half of this year, the process to effect this change was initiated. This has included the decision to enter into discussions concerning the sale of the Group's Netherlands subsidiary, the entry into an oil redevelopment play in Canada and the start of a change in board composition. The process has continued into the second half of the year with three key objectives identified as the focus for the business for the remainder of the year: the sale of the Netherlands subsidiary; progress on the assets in the Southern Adriatic; and undertaking the testing phase of the oil redevelopment play in Canada. Further to these operational goals, Keith Bush was appointed as Chief Executive Officer in July and the appointment of a new chairman is well progressed.

Alongside these strategic moves, the operations and financial performance of the business during the first half of the year have been in line with expectations. Production, including deemed production from P12, averaged 872 barrels of oil equivalent per day, as forecast and marginally down on the average throughout 2012 of 886 barrels. The installation of electric compression on the Brakel gas field in The Netherlands was completed during April and the post-compression production showed approximately a 25 per cent increase in volume. These volumes, combined with a strong gas sales price in The Netherlands, kept revenues ahead of budget.

The third well offshore of French Guiana was spudded and completed within the period, encountering the target formation but with no indications of hydrocarbons. The drilling programme continued with the fourth well, which was completed in July, and the fifth and final well of this current programme is in progress. The investment in Northpet Investments Limited, the joint venture vehicle by which the Group holds its interest in the French Guiana licence, continues to account for one of the more material movements in the Group's cash balance.

Alongside the investment in French Guiana, the payment of taxes owed to the government in The Netherlands of approximately €4.7 million during the period accounted for another significant change in cash reserves. Cash as at 30th June 2013 was €17.4 million. The Group continues to monitor cash flows and forecast cash requirements and during the period implemented a material reduction in ongoing general and administrative costs which will benefit the business into 2014. The Company also took advantage of a government scheme in Italy, which has now been discontinued, whereby the Group was refunded a portion of historic seismic costs expended in the country. Half of the refund was paid as a grant, which has been used to offset the Italy intangible cost pool, and half as a low interest loan, repayable over five years. This loan is split on the balance sheet between current and non-current liabilities.

The reduction in both trade receivables and payables was primarily due to the conclusion of negotiations around the transportation agreement across the P12 platform with the owners of the Medway gas field, resulting in the payment of accrued income and operational expenses, previously outstanding at the year end.

The short term focus of the business is on achieving the three key objectives set out above. It is expected that each of these actions will help demonstrate clear value to the market with the associated benefits in shareholder value. The completion of these objectives will also position the business well for future growth in the medium and longer term.

Condensed Consolidated Statement of Profit or Loss

for the six months ended 30 June 2013

	Notes	**6 months ended 30 June 2013 (Unaudited) €'000**	6 months ended 30 June 2012 (Unaudited) €'000 (Restated)*
Revenue		**6,072**	7,512
Production costs		**(2,115)**	(2,099)
Depletion and amortisation – property, plant & equipment		**(1,464)**	(1,223)
Cost of sales		**(3,579)**	(3,322)
Gross profit		**2,493**	4,190
Pre-licence costs		**(248)**	(490)
Administrative expenses		**(2,252)**	(2,475)
Profit/(loss) on disposal of assets		**4**	(18)
Other operating income	3	**853**	154
Other operating expenses		**(473)**	(286)
Profit from operations		**377**	1,075
Finance charges	4	**(225)**	(221)
Finance income		**72**	375
Share of operating loss of joint ventures & associates		**(13)**	(11)
Profit before tax		**211**	1,218
Tax expense		**(1,102)**	(1,404)
Loss for the period		**(891)**	(186)
Basic earnings per share on loss for the period (cents)	5	**(0.9)**	(0.2)
Diluted earnings per share on loss for the period (cents)	5	**(0.9)**	(0.2)

* See Note 2

All results are from continuing activities and are attributable to equity shareholders of the parent.

Notes 1 to 10 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 2013

	6 months ended 30 June 2013 (Unaudited) €'000	6 months ended 30 June 2012 (Unaudited) €'000 (Restated)*
Loss for the period	**(891)**	(186)
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(561)**	590
Other comprehensive (loss)/income for the period, net of income tax	**(561)**	590
Total comprehensive (loss)/income for the period	**(1,452)**	404

* See Note 2

Condensed Consolidated Statement of Financial Position

as at 30 June 2013

	Notes	**At 30 June 2013 (Unaudited) €'000**	At 31 December 2012 (Audited) €'000
Assets			
Non-current assets			
Intangible assets	6	**37,513**	36,962
Property, plant and equipment	7	**47,169**	47,527
Investments in joint ventures		**10,325**	6,621
Investments in associates and others		**119**	90
		95,126	91,200
Current assets			
Inventories		**99**	99
Trade and other receivables		**6,497**	9,870
Cash and cash equivalents		**17,352**	22,473
		23,948	32,442
Total assets		**119,074**	123,642
Liabilities			
Current liabilities			
Trade and other payables		**2,752**	4,172
Loans and borrowings		**119**	—
Corporation tax liability		**1,360**	4,582
		4,231	8,754
Non-current liabilities			
Trade and other payables		**16**	19
Loans and borrowings		**1,455**	—
Provisions		**9,670**	9,434
Deferred tax liabilities		**13,391**	13,718
		24,532	23,171
Total liabilities		**28,763**	31,925
Net assets		**90,311**	91,717
Capital and reserves			
Share capital		**5,964**	5,964
Share premium		**12,553**	12,553
Merger reserve		**10,289**	10,289
Special reserves – distributable		**28,583**	28,583
Share incentive plan reserve		**1,053**	1,364
Foreign currency translation reserve		**(696)**	(135)
Retained earnings		**32,565**	33,099
Total equity		**90,311**	91,717

All amounts are attributable to equity shareholders of the parent.

Notes 1 to 10 form an integral part of this report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2013

	6 months ended 30 June 2013 (Unaudited) €'000	6 months ended 30 June 2012 (Unaudited) €'000 (Restated)*
Cash flows from operating activities		
Profit before tax	**211**	1,218
Depletion and amortisation	**1,464**	1,223
Depreciation – non oil and gas property, plant & equipment and intangibles	**440**	184
(Profit)/loss on disposal of property, plant and equipment	**(4)**	18
Foreign exchange gain	**(50)**	(313)
Finance income	**(22)**	(62)
Finance charges	**225**	221
Share based payments	**46**	19
Share of operating loss of joint ventures & associates	**13**	11
Net cash inflow before movements in working capital	**2,323**	2,519
Decrease in inventories	**—**	5
Decrease in trade and other receivables	**3,317**	744
Decrease in trade and other payables	**(1,533)**	(2,588)
Exchange movement	**—**	(12)
Net cash inflow/(outflow) from changes in working capital	**1,784**	(1,851)
Taxes paid	**(4,673)**	—
Net cash (outflow)/inflow from operating activities	**(566)**	668
Cash flows from investing activities		
Interest received	**22**	62
Interest paid	**(14)**	(38)
Purchase of property, plant and equipment	**(1,423)**	(2,319)
Expenditure on exploration and evaluation assets	**(2,536)**	(400)
Purchase of other intangible assets	**—**	(250)
Proceeds from award of government grants	**1,574**	—
Investment in joint venture company	**(3,746)**	(937)
Sale of property, plant and equipment	**8**	949
Acquisition costs of Canadian subsidiary net of cash and cash equivalents acquired (note 8)	**(125)**	—
Net cash outflow from investing activities	**(6,240)**	(2,933)
Cash flows from financing activities		
Proceeds from the exercise of warrants	**—**	296
Proceeds from award of government loans	**1,574**	—
Net cash inflow from financing activities	**1,574**	296
Net decrease in cash and cash equivalents	**(5,232)**	(1,969)
Cash and cash equivalents at start of period	**22,473**	29,794
Effect of exchange rate movements	**111**	329
Cash and cash equivalents at end of period	**17,352**	28,154

* See Note 2

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2013

	Share capital €'000	Share premium account €'000	Merger reserve €'000	Special reserves €'000	Share incentive plan reserve €'000	Foreign currency translation reserve €'000	Retained earnings €'000	Total €'000
At 1 January 2012 (audited)	5,855	12,366	10,289	28,583	3,020	182	32,985	93,280
Restated total comprehensive income/(loss) for the period	—	—	—	—	—	590	(186)	404
Transactions with owners of the Company, recognised directly in equity								
Issue of shares during the period – warrants and staff bonus	109	187	—	—	—	—	—	296
Equity share warrants exercised or lapsed	—	—	—	—	(1,397)	—	1,397	—
Share based payments	—	—	—	—	19	—	—	19
Total transactions with owners of the Company	109	187	—	—	(1,378)	—	1,397	315
Restated balance at 30 June 2012 (unaudited)*	5,964	12,553	10,289	28,583	1,642	772	34,196	93,999

	Share capital €'000	**Share premium account €'000**	**Merger reserve €'000**	**Special reserves €'000**	**Share incentive plan reserve €'000**	**Foreign currency translation reserve €'000**	**Retained earnings €'000**	**Total €'000**
At 1 January 2013 (audited)	**5,964**	**12,553**	**10,289**	**28,583**	**1,364**	**(135)**	**33,099**	**91,717**
Total comprehensive loss for the period	—	—	—	—	—	**(561)**	**(891)**	**(1,452)**
Transactions with owners of the Company, recognised directly in equity								
Equity share warrants exercised or lapsed	—	—	—	—	**(357)**	—	**357**	—
Share based payments	—	—	—	—	**46**	—	—	**46**
Total transactions with owners of the Company	—	—	—	—	**(311)**	—	**357**	**46**
At 30 June 2013 (unaudited)	**5,964**	**12,553**	**10,289**	**28,583**	**1,053**	**(696)**	**32,565**	**90,311**

All amounts are attributable to equity shareholders of the parent.

* See Note 2

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2013

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 2012, apart from a new policy on the treatment of government grants as set out below. These statutory accounts are available on the Company's website (www.northpet.com) or by application to the Company's registered office.

The financial information for the six months ended 30 June 2013 and 30 June 2012 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 2012 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 auditors 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.

New accounting policies

Government Grants and Disclosure of Government Assistance

A government grant is recognised only when there is reasonable assurance that (a) the entity will comply with any conditions attached to the grant and (b) the grant will be received. Government grants relating to intangibles and property, plant and equipment are offset against the costs of the related assets.

Changes to Accounting policies

a) In the current period, 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 1 – Presentation of Financial Statements

Amendments were made that require an entity to present separately the items of other comprehensive income that may be reclassified to profit or loss in the future, from those that would never be reclassified to profit or loss. They also preserve the existing option to present the profit or loss and other comprehensive income in two statements.

b) At the date of approval of this interim report, the following Standards and Interpretations which have not been applied in this interim report were in issue and effective but not yet adopted by the EU:

IFRS 10 – Consolidated Financial Statements

This standard will replace the existing accounting for subsidiaries and joint ventures, and make limited amendments in relation to associates. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 – Joint Arrangements

This standard will replace the existing accounting for subsidiaries and joint ventures, and make limited amendments in relation to associates. All parties to a joint arrangement are within the scope of IFRS 11.

IFRS 12 – Disclosure of Interests in Other Entities

This standard will replace the existing accounting for subsidiaries and joint ventures, and will make limited amendments in relation to associates.

IFRS 13 – Fair Value Measurement

This is a new standard that will replace the existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements.

1. Basis of preparation continued

Changes to Accounting policies continued

IAS 27 – Separate Financial Statements

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 for separate financial statements, with some minor clarifications.

IAS 28 – Investments in Associates and Joint Ventures

This standard was amended in 2011 and replaces IAS 28 (2008). The amendments were as follows:

- Associates and joint ventures held for sale – IFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment not classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures – IAS 28 (2011) does not require re-measurement of the retained interest in the investment upon cessation of significant influence or joint control. Previously, IAS 28 (2008) and IAS 31 would have required re-measurement of any retained interest in all cases, even if significant influence was succeeded by joint control.

The Directors do not expect that the adoption of these Standards or Interpretations in future periods will have a material impact on the financial statements of the Group.

2. Representation and restatement of six month period to 30 June 2012

In order to be consistent with the presentation and accounting treatment adopted in the audited financial statements for the year ended 31 December 2012 and the unaudited interim financial statements for the six month period ended 30 June 2013, the results for the six month period to 30 June 2012 have been re-presented and re-stated as follows:

- Compensation revenue and production costs related to the P12 field, previously reported under “Revenue” (€375,000) and “Production costs” (€221,000), have been reclassified as “Other operating income”, see note 3 below. This adjustment has no overall effect on the reported loss for the six month period ended 30 June 2012. For further detail see page 22 of the Annual Report and Accounts 2012;
- New business development expenses of €286,000 previously reported under “Pre-licence costs” have been re-presented as “Other operating expenses”. This adjustment has no overall effect on the reported loss for the six month period ended 30 June 2012; and
- Following discussions with Nederlandse Aardolie Maatschappij (“NAM”) in late 2012, the Group has assigned a portion of the income of the gas production from the Brakel field in The Netherlands to NAM in line with the expected outcome of negotiations concerning the original sales and purchase agreement under which five fields in The Netherlands were acquired. As a consequence of this the following amounts have been restated, Revenue has been reduced by €850,000, Production costs have been increased by €304,000, and the Tax expense has been reduced by €577,000. The overall reduction in the reported profit for the six month period to 30 June 2012 is €577,000. For further information see the Annual Report and Accounts 2012 Financial Review and Segmental information – note 2, where this was discussed.

Notes to the Condensed Consolidated Interim Financial Statements continued

for the six months ended 30 June 2013

3. Other operating income

	6 months ended 30 June 2013 (Unaudited) €'000	6 months ended 30 June 2012 (Unaudited) €'000 (Restated)*
P12 compensation payment	**853**	154

* See Note 2

Production from the P12 field was shut in during April 2012 to allow the Dana Petroleum Plc operated Medway gas fields to utilise the P12 platform facilities as a processing and transport route. Northern is being compensated based on an agreed production profile for P12 per the transportation agreement with a cash payment representing production, a tariff payment for the use of the P12 facilities and a payment for a share of the operating expenditure. While the agreement is effectively allowing Northern to be paid as if it was producing gas from P12, no actual gas is being produced by Northern and since there is no current obligation to produce in the future this net income is recognised in Other Operating Income, except for the tariff income which remains in Revenue.

4. Finance charges

	6 months ended 30 June 2013 (Unaudited) €'000	6 months ended 30 June 2012 (Unaudited) €'000
Other interest payable	**14**	38
Unwinding of discount on decommissioning provisions	**211**	183
	225	221

5. 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 2013 (Unaudited) €'000	6 months ended 30 June 2012 (Unaudited) €'000 (Restated)*
Net loss attributable to equity holders used in basic calculation	**891**	186
Net loss attributable to equity holders used in dilutive calculation	**891**	186
Basic weighted average number of shares	**95,067**	94,247
Dilutive potential of ordinary shares:		
Warrants exercisable under Company schemes	—	—
Diluted weighted average number of shares	**95,067**	94,247

* See Note 2

The calculation of the diluted EPS assumes all criteria giving rise to the dilution of the EPS are achieved and all outstanding share options that are in the money at period end are exercised.

6. Intangible assets

	30 June 2013 (Unaudited) €'000	31 December 2012 (Audited) €'000
Exploration and evaluation assets	**35,264**	34,414
IT systems	**2,249**	2,548
	37,513	36,962

7. Property, plant and equipment

	30 June 2013 (Unaudited) €'000	31 December 2012 (Audited) €'000
Oil and gas assets	**46,434**	46,752
Computer and office equipment and leasehold improvements	**735**	775
	47,169	47,527

8. Canadian acquisition

On 31 January 2013 the Group acquired all of the ordinary share capital of Ouro Preto Resources Inc ("Ouro Preto").

The acquisition of Ouro Preto has enabled the Group to establish itself quickly in Canada and acquire Petroleum and Natural Gas Rights from the Crown with plans to commence operations later this year.

Due to the inherently uncertain nature of the oil and gas industry, and exploration and evaluation assets in particular, the assumptions underlying the assigned values below are significantly judgemental in nature. The acquisition consideration below is considered equal to the aggregate of the fair values of the assets and liabilities acquired, with fair value adjustments recorded as deemed appropriate.

Effect of the acquisition.

Consideration:

	31 January 2013 €'000
Cash	**209**

Identifiable assets acquired and liabilities assumed:

	31 January 2013 Pre-acquisition carrying amount €'000	31 January 2013 Fair value adjustments €'000	31 January 2013 Recognised values on acquisition €'000
Intangible assets	**54**	**204**	**258**
Property, plant and equipment – oil & gas assets	**27**	**—**	**27**
Trade and other receivables	**33**	**—**	**33**
Cash and cash equivalents	**84**	**—**	**84**
Trade and other payables	**(126)**	**—**	**(126)**
Provisions	**(27)**	**—**	**(27)**
	45	**204**	**249**
Deferred tax liability	**—**	**(40)**	**(40)**
	45	**164**	**209**

The intangible assets acquired comprise Petroleum and Natural Gas Rights in Alberta province, Canada.

Notes to the Condensed Consolidated Interim Financial Statements continued

for the six months ended 30 June 2013

8. Canadian acquisition continued

The uplift on acquisition of "Intangible assets" of €204,000 equates to a fair value of possible oil reserves. The Directors consider that this was, and remains, an appropriate valuation given the early stages of development of the assets.

The trade and other receivables comprises bond deposits for decommissioning and Government Sales Tax ("GST" – Canadian VAT), all of which was expected to be collectable at the acquisition date. At 30 June GST had been received and the decommissioning bond was still outstanding and is expected to be collectable following the abandonment of the Bow Island field in 2018.

No goodwill has been recognised as result of the acquisition and no significant acquisition related costs have been incurred.

The revenue generated and expenses incurred by this operation since the date of acquisition (31 January 2013) were €Nil and €158,000 respectively. Of the €158,000 expenses, €94,000 relates to staff and office costs and €22,000 relates to legal fees. Cash outflow from the operation post acquisition was €798,000 and comprised the staff and office costs and investments in oil and gas assets. If the acquisition had occurred on 1 January 2013, management estimates that consolidated revenue would have been unchanged and the consolidated costs for the six month period would have been €31,000 higher.

9. Approval by Directors

The interim results for the six months to 30 June 2013 were approved by the Directors on 23 September 2013.

10. Availability of interim report

The interim report will be made available in electronic format on the Company's website, www.northpet.com, and will be posted to registered shareholders. Further copies will be available on request by application to the Company Secretary at the Company's registered office being Martin House, 5 Martin Lane, London, EC4R 0DP.

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