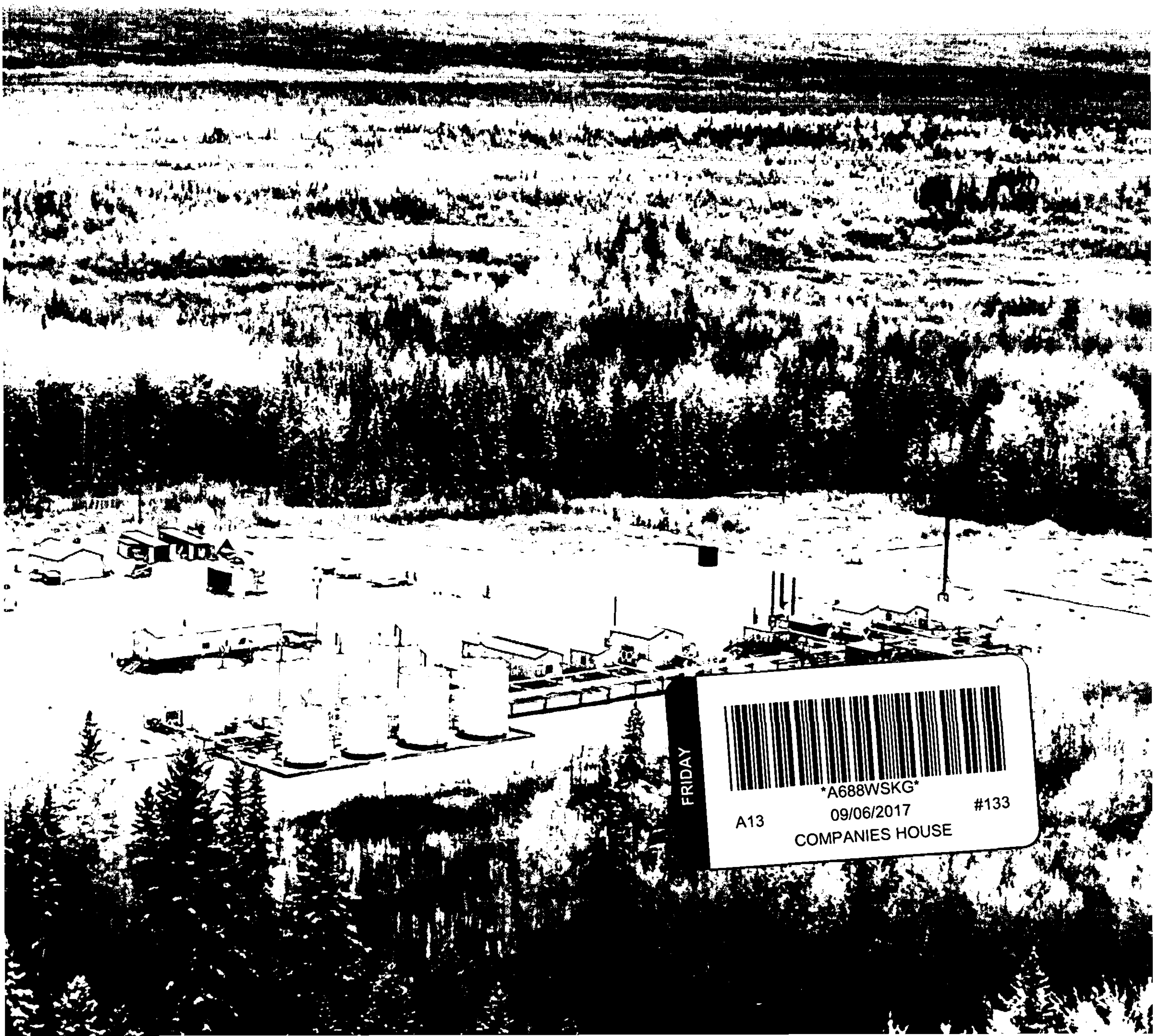
Northern Petroleum Plc

Annual Report and Accounts 2016

COMPANY NUMBER 02933545



Northern Petroleum Plc

Production led growth

Northern Petroleum is an oil and gas exploration and production company quoted on the Alternative Investment Market of the London Stock Exchange. The Group is focused on production led growth which will deliver cash flow and demonstrable value for shareholders in a reasonable timeframe.

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

Northern Petroleum's key assets are in Canada, an onshore light oil production project with significant growth potential, and in Italy, with both onshore and offshore permits and applications containing exploration prospects and oil and gas discoveries that require appraisal.

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Cover photo: 13-36 Rainbow production facility

At a Glance

Canada – production and development

The Group has established a production base in north west Alberta, Canada, with mineral rights across 58,000 acres and extensive processing and storage facilities. The Group is redeveloping and expanding a light oil production play from Devonian carbonate reefs. 40 wells are currently in production or expected to be in production this year and a further 30 existing wells have the potential to be brought back into production. Incremental production growth is planned through the drilling of side track and new wells into previously produced reefs where oil recovery to date has been low.

Technical work on the project is focused on mapping the Keg River play across the Group's northern Virgo area in addition to understanding the potential of the other horizons over the acreage.

The Group has signed a three-year, area of mutual interest agreement with its new strategic investor, High Power Petroleum LLC ("H2P"), to pursue production and development acquisitions in Alberta and Saskatchewan which can leverage off the established operational base and team in Calgary and further accelerate production growth in Canada.

The Group operations in Alberta are well supported by a broad and competitive service industry and overseen by a transparent and experienced regulatory regime.

Increasing reserves*

- 1.9 million barrels of Proven plus Probable reserves
- Increase from 0.3 million barrels as at 31.12.15
- NPV10 of $23 million

Resources

- 30 million barrels of contingent resource
- 401 million barrels of mean prospective resource

Growing production

- 106,000 barrels of oil produced in 2016
- 290 boepd average production in 2016
- 2017 work programme to double production

Strengthening economics

- Tenfold increase in revenue over prior year
- 43 per cent. reduction in administrative expenses
- Pre-tax losses down to $2.5 million (2015: $10.7 million)

* as at 30.09.16 before 25 per cent. disposal to H2P

Italy – exploration and appraisal

The Group has a portfolio of exploration permits and applications which have the potential to generate high returns on investment over the medium to long term. The portfolio is focused offshore in the southern Adriatic and onshore in the Po Valley region.

The quality of the acreage has been validated by the farm in of two partners in the last two years; Shell Italia in the Cascina Alberto permit onshore in the Po Valley region and H2P, subject to regulatory approval, across all the southern Adriatic permits and applications. Shell Italia, as operator of Cascina Alberto, is undertaking an exploration campaign targeting a prospect analogous to the prolific Villa Fortuna Trecate oil field, which is located approximately 25 km away and has produced over 220 mmboe to date. Shell Italia is effectively carrying the Group through to the end of the first exploration well.

The Group is aiming to acquire 3D seismic over its 401 mmboe prospective resource Cygnus prospect in the southern Adriatic and the 26 mmboe contingent resource Giove oil discovery. Based on the results of this seismic data, the Group will then aim to drill an exploration well on Cygnus and an appraisal well on Giove, which now only needs a flow test to surface before a development plan can be finalised.

The Group will create three to five significant well events in Italy over the medium to long term to expose shareholders to the possibility of significant upside upon success of any one event.

Australia - exploration

The Group has a large onshore exploration permit in South Australia comprising 1.4 million acres in the Otway basin. The targeted plays are both conventional and unconventional. H2P has farmed into the licence, subject to regulatory approval, for an initial 25 per cent.

Chairman's and Chief Executive Officer's Statement

2016 proved to be a pivotal year for the Group despite the continuing poor industry climate. The year started with a production acquisition in Canada requiring very low capital outlay and ended with a new strategic investor, a joint venture partner across the portfolio and a strengthened balance sheet that will enable growth from the existing asset base.

Early in 2016 the oil price dipped to a low of $27 for West Texas Intermediate before recovering later in the year and finishing 2016 at over $53. The low prices early in the year caused an extreme reaction within the industry with companies being forced into insolvency and further job losses both on the operator side and in the service sector. This downturn, which started in 2014, has become the most prolonged in industry history and has caused fundamental changes throughout the sector. As a result, opportunities have become available to those companies that have survived and have the balance sheet and strategic relationships to grow both through acquisition and development of existing acreage.

For the last two years the Group has been concentrating on establishing a platform that will enable growth when the business environment improves. Our strategy of production led growth has provided the framework to focus on acquiring low cost production with room for both production and reserves growth in the short and medium term.

In line with this strategy and after careful consideration of different opportunities, the Group completed the acquisition of a producing asset with strong synergies to the existing acreage in northern Alberta in January 2016. The acquisition enhanced our strategy of profitable production, effective cost management and growth in reserves. We remain committed to this strategy which we firmly believe provides the right foundation for continued growth.

The acquired assets are in the Rainbow area of northern Alberta, approximately 15 miles from the Group's existing assets in the Virgo area. At the time of acquisition, the Rainbow Assets were producing approximately 150 boepd. During the asset evaluation stage the Group's technical team identified a number of well recovery opportunities, that when implemented through a successful well intervention campaign, increased production to more than 400 boepd by the end of March 2016.

Following the investment programme in 2016, production for the year averaged 290 boepd. At this production level a large proportion of operating costs relate to the fixed costs of the facilities. The planned increase in production in 2017 will not lead to an increase in fixed costs and therefore operating cost per barrel will reduce, allowing the Group to invest the additional net income in Canada as well as support continuing efforts in Italy.

Following the acquisition of the Rainbow Assets, the technical work and capital investment in the assets allowed the Group's reserve auditors to recognise additional potential with certified Proven and Probable reserves increasing by more than 30 per cent. At the end of September 2016, 2P reserves were 1.9 mmboe, before the 25 per cent. working interest sale to H2P. These existing reserves provide the inventory that will sustain profitable production growth in the years ahead.

In Italy, the political environment was very active in 2016 with two national referenda; the second, in December 2016, leading to defeat for the Government and the resignation of the Prime Minister. As a result, progress for the Italian oil and gas industry has been slow, but the Group has advanced, with Shell Italia, the operator of our interest in Cascina Alberto onshore northern Italy, planning a 2D seismic acquisition programme which is now expected to occur in 2018.

Additionally, the appeals made against the approval of the Group's Environment Impact Assessments offshore in the southern Adriatic, were heard and rejected, leaving the path clear to acquire 3D seismic in the F.R39 and F.R40 permits. This allowed the Ministry of Economic Development to progress the award of the application areas, also in the southern Adriatic, which are expected to be awarded this year. Despite the political upheaval in Italy we remain focused on creating value from our Italian portfolio and we expect to be able to report firm activity before the end of 2017.

In conjunction with the work on the Group assets, ensuring that operational and administrative costs were managed and maintained at a low level was a key goal for the year. Administrative expenses were again reduced in 2016 with a total of $2.3 million for the whole Group, versus $4.0 million in 2015. This has been achieved while maintaining the ability to effectively manage the existing assets and pursue further opportunities for growth. Operating expenses have been constantly under review throughout the year and a number of initiatives have been started that should lead to a reduction in costs in 2017.

Throughout the year we recognised that both the Canadian and Italian assets would need more investment to be able to reach their potential. As a result, discussions were held with a number of potential investors with a view to bringing in a strategic investor along with existing shareholders. The discussions focused on the production potential and cashflow generation of the Canadian assets and proved attractive to investors with a strong industry background.

In November 2016, having pursued a number of different potential financing initiatives, the Group agreed a broad based strategic investment by H2P, both at the asset and corporate level.

Chairman's and Chief Executive Officer's Statement

A 25 per cent. interest in the Canadian assets was sold to H2P for a $2.0 million cash consideration and the provision of $0.25 million worth of stimulation services, by Blue Spark Energy Inc, a sister company of H2P. A 10 per cent. and a 25 per cent. interest in the southern Adriatic permits and the Australian permit respectively were also sold for $0.5 million, with completion subject to regulatory approval.

In conjunction with these asset investments, H2P subscribed for ordinary shares raising gross proceeds of $4.1 million. Existing and new institutional shareholders also subscribed for ordinary shares contributing proceeds of $2.2 million. An oversubscribed open offer to existing shareholders, on the same terms as the direct subscription, raised a further $0.9 million which resulted in a total equity funds raised of $7.2 million, of which $1.8 million was received post year end.

The introduction of H2P as a strategic investor at both the asset level and as a major shareholder marks a step change for the Group. The continued support from other key shareholders, Cavendish Asset Management and City Financial, alongside our retail shareholders gives the Group a solid financial foundation from which to grow our production in Canada and develop our Italian portfolio.

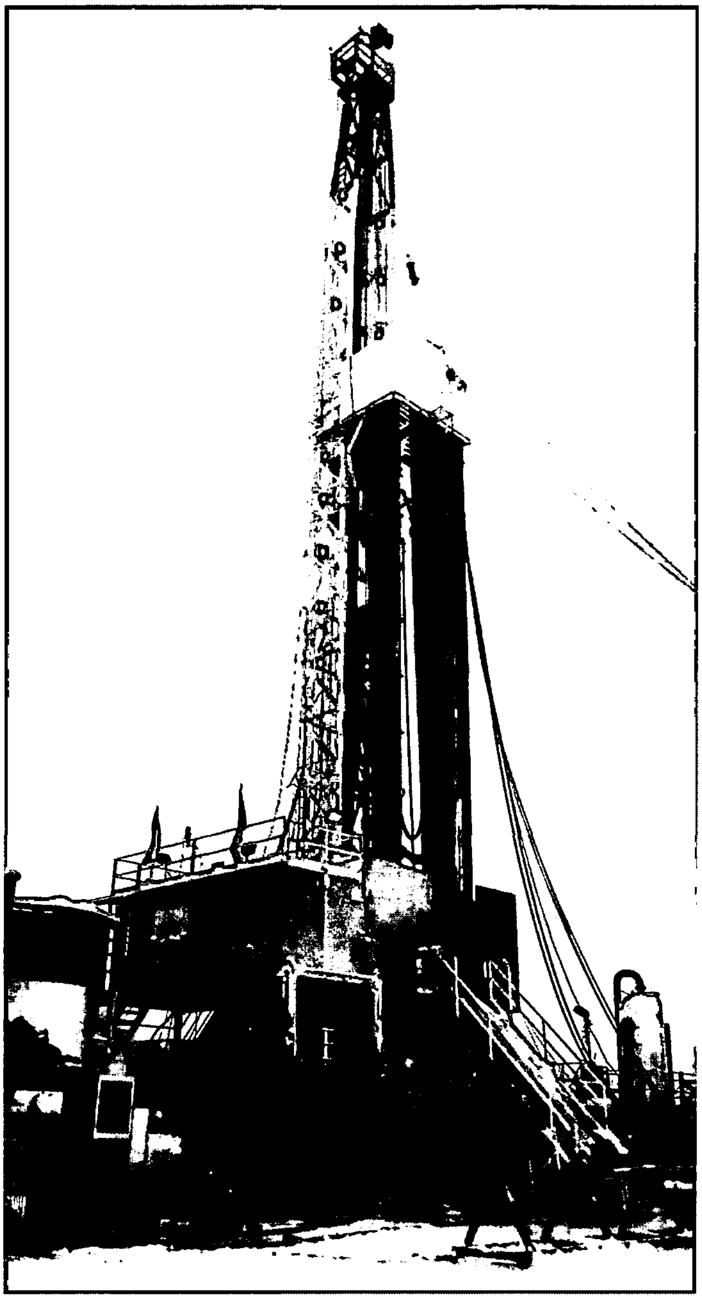
At the end of 2016, the Board was enhanced with the appointment of Campbell Airlie as a Non-executive Director. Campbell provides a wealth of industry experience to the Board, particularly from an engineering perspective and bolsters the technical rigour given to the executive management and staff.

The work performed in 2016 has positioned the Group to be able to grow from the existing asset base. The capital from new and existing shareholders along with the funds from the disposal of certain assets has provided the Group with a strong balance sheet and will allow the potential of the assets to be realised. Despite the difficult economic environment, Northern Petroleum is well placed to increase production and reserves which coupled with effective cost management should deliver real growth in the short and medium term.

Jon Murphy
Chairman

Keith Bush
Chief Executive Officer

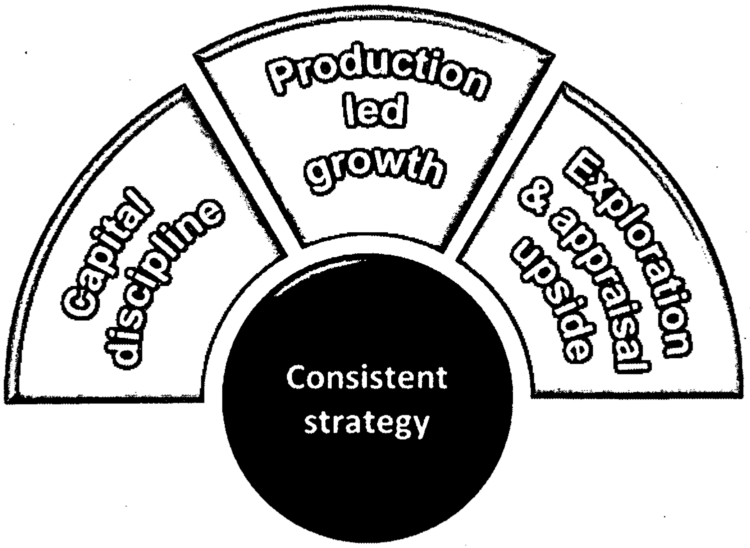
24 April 2017



11-30 well, Virgo

Strategy

The Group has pursued a consistent strategy throughout the difficult industry environment of the last two years.



Capital discipline

- capital intensive industry requires strict control
- project by project analysis to maximise returns
- risk based approach to capital deployment

Production led growth

- financial stability
- core value growth
- within management's control

Exploration & appraisal upside

- opportunity for significant returns
- step change in value
- company making potential

Key Performance Indicators

The Board has established Key Performance Indicators which, if delivered against over time, will ensure sustainable and attractive levels of growth for the Group.

Health, safety and environment

Measure

No incidents or accidents using the Lost Time Incident ("LTI") measure: an event that results in a fatality, permanent disability or time lost from work of one day or more. No reportable environmental issues.

Performance

No LTIs occurred in 2016. Two minor reportable environmental issues occurred which involved the accidental release of hydrocarbons. Both were dealt with immediately and with full regulatory compliance.

Further consideration

Two work over programmes were conducted on the Rainbow Assets which had greater potential risk to health and safety. Both were conducted without injury or incident.

Production and Reserves – current and future cashflow generation capability

Measure

The level of reserves and resource as reported by or derived from an external reserves engineer and the total production for the year.

Performance

2P reserves increased by 1.6 mmboe from 0.3 mmboe as at 31 December 2015 to 1.9 mmboe as at 30 September 2016 before the sale to H2P, due to the Rainbow Asset acquisition and further capital investment focused on the Rainbow region. Average production in 2016 was 290 boepd or 106,000 boe in total, a significant increase on the 9,872 boe produced in 2015.

Further consideration

For the 30 September 2016 reserves report the Group only included existing production and development wells in the analysis of 2P reserves. No reserves were attributed to planned new wells and side track wells. No resource was attributed to the wider Rainbow and Virgo acreage held by the company.

Finding and development costs – economic development of reserves

Measure

The total costs incurred in the acquisition and/or development of reserves during the year, divided by the increase in 2P reserves for that same year, to present a dollar per barrel finding and development cost. This is a non-IFRS measure, but an important measure of the economic growth of the business.

Performance

The Rainbow Asset acquisition consideration of $0.4 million in cash (see note 24) and the assumption of $7.9 million of abandonment liabilities (see note 18), combined with capital investment in Canada of $1.4 million (see note 13a) produced total finding and development costs in 2016 of $9.7 million or $5.69 per 2P barrel of increased reserves.

Further consideration

The Group benefitted from the continuing restructuring of exploration and production companies looking to divest non-core assets at reasonable prices. The 2016 finding and development costs of $5.69 per barrel will support future economic production.

Review of Operations

Canada

2016 Activity

In January 2016 the Group acquired the Rainbow Assets which at the time were producing approximately 150 boepd. The acquisition included wells, pipeline infrastructure and two production facilities with a direct tie-in to the national pipeline network. The Rainbow Assets, combined with the existing Virgo development project gave the Group a total combined land position of 58,000 acres with 2P reserves of 1.4 mmboe on completion.

During the year, two work programmes, focused on the Rainbow Assets, were successfully undertaken returning 10 wells to production that had been previously shut in due to mechanical issues. These work programmes increased total production from approximately 150 boepd at the beginning of the year to in excess of 400 boepd at the completion of the programmes. This increase in production resulted in a total average production for the year from the Virgo and Rainbow areas of 290 boepd.

Towards the end of the year, an independent reserves report was produced by McDaniel and Associates Consultants Ltd. taking into consideration the results of the two work programmes and the Group's operating expenditure for the six months after the acquisition of the Rainbow Assets. As of 30 September 2016, total Proven and Probable reserves were 1.9 mmboe, an increase of over 600 per cent. from the beginning of the year.

Total production for the year amounted to 106,000 boe with operating expenditure reduced during the year due to a combination of having acquired two production facilities as part of the Rainbow Asset acquisition significantly reducing third party processing fees, and an industry wide reduction in service company costs reflecting the lower oil price environment.

Health, safety and environmental performance was satisfactory for the Canadian assets during 2016 with no Lost Time Incidents or injuries to personnel. There were two minor reportable oil spills, where clean up from both spills was completed successfully, in compliance with regulatory requirements.

2017 Activity

As a result of the capital raised by the Group at the end of 2016, activities in early 2017 have been focused on a winter work programme aimed at working over 20 wells to increase production by 300 boepd. These wells had originally been shut in due to mechanical or near well bore issues in the Rainbow area.

By the end of the first quarter, the programme had been completed with the production targets achieved. Planning has now commenced for an extended summer work programme, which aims to increase production by a further 300 boepd.

Italy

Offshore

Approvals of six EIAs in the southern Adriatic were received in 2015. The approvals included the 3D seismic programme across the Giove oil discovery and Cygnus exploration prospect and the five exploration applications adjacent to the Group's permits. Appeals lodged by the Puglia region against these awards were rejected by the Italian courts during 2016 allowing the Group to continue to plan the seismic programme and work with the Ministry of Economic Development to turn the applications into permits.

Subsurface work conducted during 2016 identified that the Medusa deep exploration prospect is analogous to the Giove discovery. As a result, subject to the approval of the Ministry of Economic Development, the Group is proposing to combine the work programmes for permits F.R39 and F.R40. This will allow one well to move both permits into the second licencing period. The Group has drafted an appraisal well EIA for Giove to be submitted during 2017 to drill a well 12 to 18 months after submission, subject to financing and approvals being received. All offshore permits are currently held in suspension pending approvals for the next stage of the work programmes.

Onshore

Shell Italia, the operator of the Cascina Alberto permit in northern Italy, has made good progress on the exploration work programme with the reprocessing of existing 2D seismic data. After careful consideration, they have decided that additional 2D seismic needs to be acquired to provide further imaging of the exploration prospect and establish the most favorable exploration well location. Shell Italia has now commenced initial public and stakeholder consultation and information meetings before submitting the EIA for the acquisition programme. The EIA is expected to be submitted to the authorities during 2017 once due consideration has been given to the results of the consultations. The Group has a 20 per cent. interest in the permit, which is carried for 2D seismic operations up to $4 million and for the drilling of a single exploration well up to $50 million.

Australia

There has been limited activity on the licence in the Otway Basin in South Australia during 2016. The primary play is for unconventional resources in several shale formations, with a secondary play in a conventional sandstone reservoir. The licence continues to be suspended to allow further technical work and evaluation. H2P has farmed into the licence, subject to regulatory approval, with an option to increase its working interest from 25 to 50 per cent. through funding a $1 million seismic work programme.

French Guiana

There was little activity on the French Guiana exploration permit during 2016. The original permit expired in June 2016 and two of the joint venture partners withdrew from any extension request. The Group does not expect any further progress or expense on the permit in 2017.

Management of Principal Risks

Identifying and managing the key risks to the Group are the responsibility of the senior management and Executive Directors. The Board is then charged with monitoring and reviewing the management of these risks.

Health, Safety and Environment

	Description	Mitigation
Major Incident	A major incident such as a blow out, significant pipeline leak or fire at a well site, may result in harm to personnel, the environment or asset damage.	The Group has designed and implemented a Health, Safety and Environmental Management System that is aligned to the principles of ISO 14001 and OHSAS 18001 and enables our staff, contractors and all sub-contractors to work to the principles of our HSE policy.

Financial

	Description	Mitigation
Liquidity	Insufficient financial resources could result in the delay or curtailment of operations.	The Group maintains detailed forecasts of the potential future capital requirements and amends work programmes to match capital resources available. The Group considers all forms of external capital to maintain liquidity.
Capital Discipline	Lack of discipline in the deployment of capital to appropriate projects may result in exposure to unplanned capital outlay.	The Group only pursues projects which are of an appropriate size and risk in relation to the Group's resources.
Commodity Price	Weak or volatile commodity prices will impact negatively on the Group's cash flow and increase the financial risks associated with medium to long term projects.	The Group will consider the hedging of future production where appropriate and look to develop and maintain low cost production.

Technical

	Description	Mitigation
Subsurface	Insufficient or incorrect interpretation of data can lead to the wrong conclusions regarding the subsurface environment.	Robust technical work processes, a full data inventory and technical peer review ensure opportunities are fully evaluated before investment decisions are made.
Reserves	Inaccurate estimates may result in the over or under valuation of an asset and the incorrect allocation of capital.	An internal reserves review is carried out as part of an annual process. External audits are undertaken in accordance with regulatory standards and industry best practice.

Political and Other

	Description	Mitigation
Political	Regulatory or legislative uncertainty or changes in the Group's country of operations may result in project delays or an inability to progress assets in a timely manner. Changes in fiscal policy may negatively affect the profitability or overall economics of a project.	The Group actively engages with government and regulatory bodies in all the countries that it works. British government advice is taken when travelling to new countries and when performing detailed country entry studies.

Group Financial Review

Overview

The focus of the financial function of the business throughout 2016 was on cashflow management. This involved balancing the day-to-day cash requirements of the Group, two work programmes and the return of an abandonment deposit from the Alberta Energy Regulator ("AER").

From an accounting perspective, the material movements in the accounts in 2016 relate to the acquisition of the Rainbow Assets, which completed in January 2016, and the subsequent sale of 25 per cent. of all the Canadian assets to H2P in December 2016. Alongside these two transactions, a new independent reserves report was commissioned following an investment programme in Canada, which led to adjustments on the carrying value of some specific assets in property, plant and equipment.

A deferred tax asset of $5.0 million has now been recognised relating to the Canadian operations, following the Rainbow Asset acquisition and investment programme. This has led the Directors to believe that it is now probable that the Group's Canadian subsidiary will be profitable and in a tax paying position in the future and that the losses and other temporary differences will be utilised. This has contributed to a post-tax profit of $3.0 million compared to a loss in 2015 of $10.2 million.

Revenue and costs

Revenues increased substantially in 2016 to $3.6 million (2015: $0.3 million) reflecting the significant increase in production levels over the prior year. Production costs of $3.5 million include Canadian and UK staff costs written to operations, as well as unplanned equipment and pipeline maintenance allocated to operational expense. The Group maintained its focus on costs throughout the organisation to ensure that the business was correctly sized for the level of activity being undertaken. A reduction in staff in the UK was undertaken early in the year and a change in the use of some of the Group's consultants contributed to a reduction in administrative costs from $4.0 million in 2015 to $2.3 million in 2016. Overall pre-tax losses were reduced from $10.7 million in 2015 to $2.5 million in the current year.

Cashflow and cash reserves

To complete the acquisition of the Rainbow Assets in January 2016, the Group had to increase its abandonment deposit held by the AER by approximately $1.2 million to a total of $1.4 million. Detailed cashflow forecasting and management was required to allow a capital investment programme to be completed during the first half of the year, without the deposit funds available for investment, in order to increase production, which was required for the return of the full deposit by October 2016.

Capital investment throughout the year was focused on two distinct work programmes, which occurred in the first and third quarters of the year. The majority of the $1.4 million invested was spent on well workovers and pipeline reinstatements.

At the end of the year the Group made another repayment to the Italian government of its outstanding debt of approximately $0.4 million. The $0.7 million remaining will be paid back over three years.

Following the partial completion of the strategic investment by H2P and equity subscription, the Group finished the year with a cash balance of $6.6 million, with a further $0.5 million still to be received following the completion of the Italian divestment to H2P, which is expected to complete in Q2 2017.

Rainbow Asset acquisition

The consideration for the Rainbow Asset acquisition of approximately $0.4 million represented the asset value less the abandonment liability assumed by the Group. Using an external reserve audit report from 1 January 2015 prepared for the vendor, an internal valuation was approved by the Board at the time of the acquisition which calculated a net present value of the assets acquired after the deduction of tax. This value, less the consideration paid and a working capital adjustment, was $2.0 million. Since this value was positive, it has been booked to the profit or loss account as a bargain consideration, which arose as the vendor considered the assets to be non-core to their business.

Impairment review of the Group's assets

Following the completion of the Rainbow Asset acquisition and the investment in production development during the year, the Group commissioned a new external reserves report. A total impairment of $1.7 million was made to property, plant and equipment to align historic cost asset values, relating to the Virgo area in Canada, to the reserves shown in the report prepared by the external reserves engineer.

Partial sale of Group's assets

As part of a strategic equity investment in the Group announced in November, H2P acquired a 25 per cent. interest in the Group's assets in Canada, with the completion of a further acquisition of interests in the southern Adriatic in Italy and the onshore permit in Australia still subject to regulatory approval.

The divestment of the Canadian interest closed in December 2016. The book value of the Canadian assets at completion had been adjusted for the bargain consideration and impairment, as explained above, and from operations and capital investment throughout the year. The net effect of these changes was to book a loss on disposal of approximately $0.2 million.

Post year end

In January 2017, the open offer made to shareholders in December 2016 completed, raising additional equity capital of $1.8 million. A long-term VAT receivable from the Italian Government was factored to a third party in Italy and the Group received approximately $0.7 million in cash in March 2017. This had previously been provided for as a bad debt, but following the receipt of the cash, the amount has been booked as a current asset in the 2016 year end balance sheet and in other income on the profit or loss account.

This gave total unaudited cash on the balance sheet as at 31 March 2017 of approximately $7.2 million, which excludes $0.7 million held in deposit by the AER.

Accounting policies

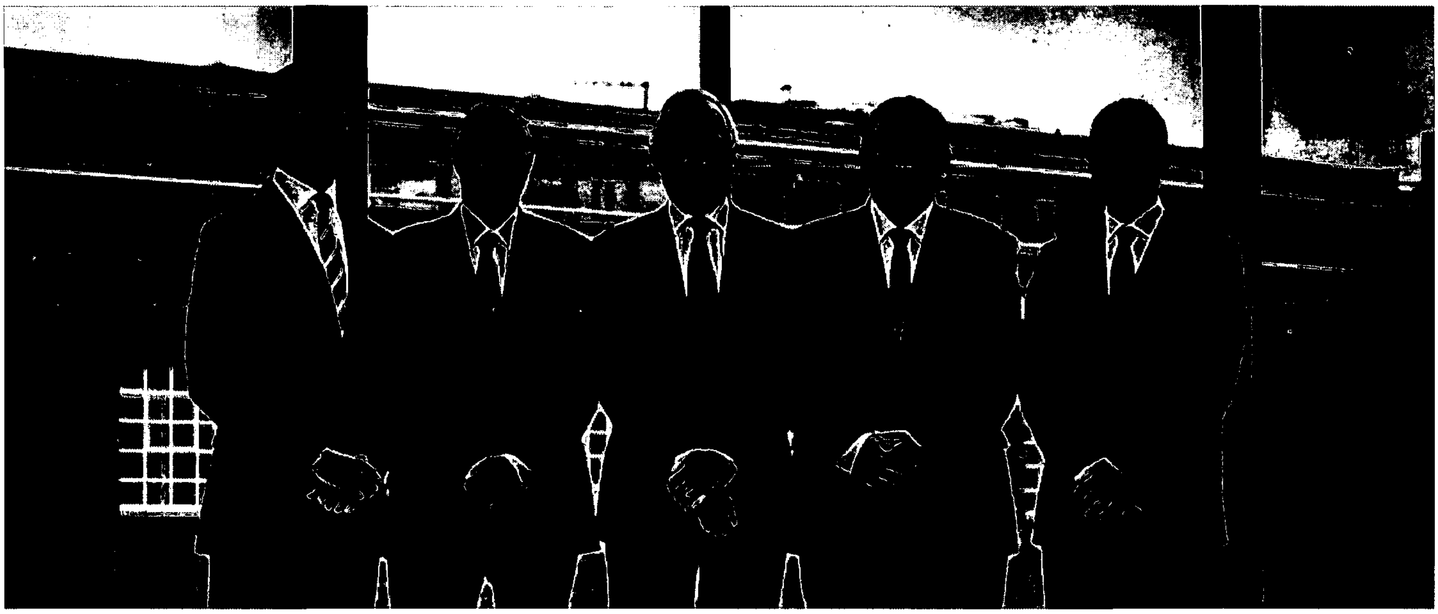
These financial statements have been prepared by the Board using accounting policies consistent with those used in 2015. There have been no new or revised International Financial Reporting Standards adopted during the year which have had a material impact on the numbers reported. Details of the accounting policies used are included within the accounting policy notes.

Nick Morgan
Finance Director

This Strategic Report, comprising the Chairman's and Chief Executive Officer's Statement, the Strategy, the Review of Operations, the Management of Principal Risks and the Group Financial Review is approved on behalf of the Board by

Keith Bush
Chief Executive Officer
24 April 2017

Board of Directors



Jon Murphy

Independent Non-executive Chairman

Jon was appointed Chairman in September 2013. Jon has a BSc. in Geology from the University of London and over 30 years' experience in the mid-cap Exploration and Production industry. After several years with operating oil and gas companies, Jon joined Venture Production in 1999 as Chief Operating Officer where he remained a board director until Venture's sale in 2009. Jon holds two other non-executive director positions, one with Trinity Exploration and Production Plc and the other with Metro Exploration Holding Corporation.

Keith Bush

Chief Executive Officer

Keith joined Northern Petroleum in May 2012 as Chief Operating Officer, was appointed to the Board in November the same year, and was made Chief Executive Officer in July 2013. Keith gained a degree in physics and has over 25 years' industry experience. Commencing his career with Western Atlas Logging Services, Keith progressed to hold managerial positions in Amerada Hess, Burlington Resources and was most recently employed as General Manager Operations for E.ON Ruhrgas in Norway. Keith has extensive experience in the North Sea, North Africa and Norway.

Nick Morgan

Finance Director

Nick was appointed Finance Director in November 2012. Before joining Northern Petroleum, Nick spent over 13 years in investment banking where he focused on advising the international E&P industry. He specialised in advising upon mergers and acquisitions and providing equity capital markets advice and services to a broad range of global oil and gas companies, both public and private. He was employed by Tristone Capital, the global energy investment bank, and latterly GMP Securities, for six years prior to joining Northern Petroleum. Nick qualified as a chartered accountant at Price Waterhouse and is a member of the Institute of Chartered Accountants in England and Wales.

Iain Lanaghan

Senior Independent Non-executive Director

Iain Lanaghan joined as a Non-executive Director in February 2014. He has specialised in growing and financing companies. In oil and gas his experience has included being Finance Director of Faroe Petroleum plc and of private equity backed Atlantic Power, which he led to a successful trade sale. His non-executive roles are as founder and chairman of Metropolitan European Transport, one of Germany's largest private bus operators, and director of UK Government owned National Nuclear Laboratory, DE&S and Scottish Water. His Finance Director roles have included FirstGroup plc and PowerGen International. He is a chartered accountant, having qualified with KPMG.

Campbell Airlie

Non-executive Director

Campbell Airlie was appointed as a Non-executive Director in December 2016. Campbell has 36 years' experience as a petroleum engineer with extensive time spent in upstream field development strategy and implementation. His career has included reservoir and production management and technical excellence roles with Schlumberger, BP, Edinburgh Petroleum Services and most recently as founder and Chief Technical Officer of Seven Energy. Campbell has been a Distinguished Lecturer in Asset Management with the Society of Petroleum Engineers and a visiting lecturer in reservoir engineering and production optimisation at Heriot Watt University.

Corporate Governance Report

The Board is committed to high standards of stewardship and governance and aims to create a culture which demands the same commitment and performance in all its business activities. As a result, accountability, integrity and honesty are fostered throughout the Group.

The Group is not required to comply with the Principles of Good Corporate Governance and the Recommendations of Best Practice as set out in the principles of the revised UK Corporate Governance Code (the "Code") published in September 2014 by the Financial Reporting Council. While the Group does not comply with all aspects of the Code, in so far as is practicable and appropriate for an AIM quoted company of Northern Petroleum's size, the Group seeks to follow the guidance set out in the Code.

The role of the Board

The Board sets the Group's strategic objectives and ensures that they are properly pursued and that the major business risks are actively monitored and managed. The Board provides leadership and guidance while maintaining responsibility for the sustainable financial performance and long term success of the business.

The Board continued to focus efforts in 2016 on strategic goals which will create shareholder value, monitoring performance against agreed objectives and planning future business opportunities. As at 31 December 2016 the Board comprised five Directors, three Non-executive and two Executive Directors. The Non-executive Chairman and Senior Non-executive Director are deemed to be independent as defined by the Code.

There is a balanced mix of skills and experience among the Board which enables the Board to effectively debate all strategic, operational and financial issues.

Committees

The Board has delegated certain responsibilities to its Committees in line with recommendations of the Code, to facilitate the business of the Board. These are the Audit Committee and the Remuneration Committee. The duties of these Committees are set out in formal terms of reference approved by the Board. The entire Board bears the responsibilities of Health, Safety and Environment issues.

Key matters reserved for the Board

The key matters reserved for the consideration and sanction by the Board are:

- approval of Group strategy, long term objectives and annual business plan;
- approval of the Group's annual financial statements, interim management statements and changes in the Group's accounting policies or practices;
- changes relating to the capital structure of the Group, share issues and the Group's dividend policy;
- approval of the annual Group budget and of individual project budgets as required by the Group Delegation of Authority guideline;
- review of the Group's future funding needs and the financial requirements to maintain its going concern status;
- changes in the nature of business operations, including entering new countries, licence applications and new business activities;
- material investments and divestments in the ordinary course of business;
- adequacy of internal control systems, hedging policy and risk management;
- approval of Group policies including the Code of Ethics, Anti-Bribery and Corruption, Code of Conduct, Health, Safety and Environmental policies;
- the creation and approval of terms of reference, chairmanship, membership and delegation of authority to all committees of the Board;
- review and consideration of potential conflicts of interest of Directors and the independence of Directors;
- appointments to the Board, subject to further re-election by shareholders;
- succession planning for the Board and senior management;
- the appointment and removal of the Group's external auditor upon the recommendation of the Audit Committee and subject to election or re-election by shareholders;
- principal terms and conditions of employment of all Directors upon the recommendation of the Remuneration Committee;
- changes in employee share schemes and other long term incentive schemes upon the recommendation of the Remuneration Committee;
- decisions to prosecute or defend material litigation; and
- annual Board, Committee and Chairman appraisals.

Corporate Governance Report continued

How the Board operates

The Board has six scheduled meetings per year and meets annually to discuss the Group strategy. The agenda for each meeting is set by the Chairman in conjunction with the Executive Directors, with board papers sent to members for consideration prior to the meeting. In addition the Board engages in frequent ad hoc telephone calls to keep all members fully briefed on the Group's operations. The Board believes that one of its strengths is in having open communication channels that enable its members to engage informally on a variety of topics.

Communication with shareholders

Clear communication with shareholders and all stakeholders is an important aspect of the role of the Group's Board and senior management. In addition to the regulatory forms of communication, including annual and interim reports and Regulatory News Service releases, all enquiries from shareholders are encouraged and receive a timely response.

The Group website (www.northernpetroleum.com) provides detailed information on the Group's activities.

All shareholders are offered the choice of receiving shareholder documentation electronically or in paper format, as well as the choice of submitting proxy votes either electronically or by post.

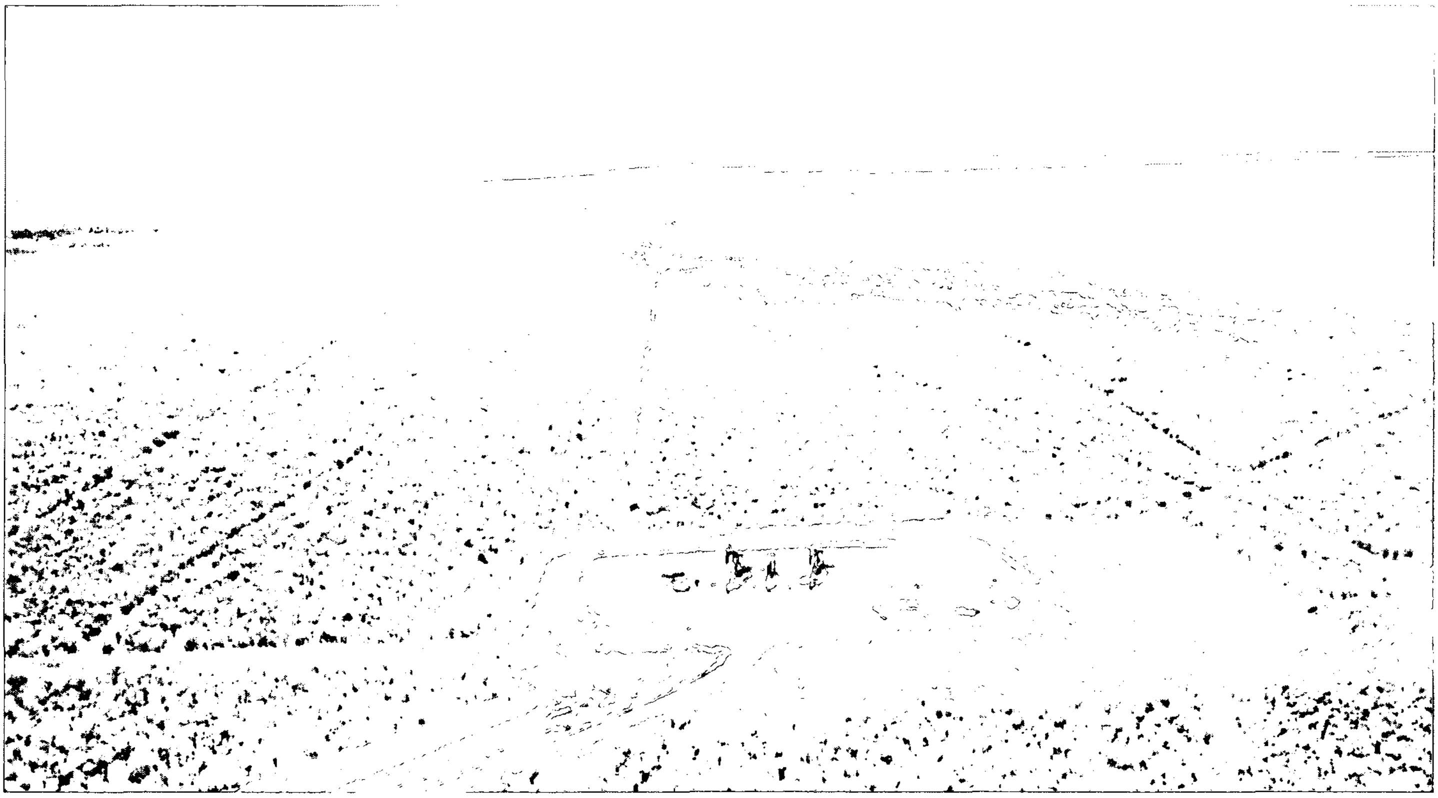
Shareholders are encouraged to attend the Annual General Meeting to discuss the progress of the Group.

Meetings

	Board	HSE	Audit	Remuneration
	7	7	3	3
Number of meetings attended by				
Executive Directors				
Keith Bush	7	7	-	-
Nick Morgan	7	7	-	-
Non-executive Directors				
Jon Murphy	7	7	3	3
Iain Lanaghan	7	7	3	3
Campbell Airlie (appointed 19.12.16)	-	-	-	-

Jon Murphy
Chairman
24 April 2017

Rainbow production wells on lease 07-112-05W6



The Health, Safety and Environment Committee

The role of the Health, Safety and Environment Committee

The Health, Safety and Environment Committee provides the necessary resources for the corporate HSE management system and oversees its implementation across all of the Group's assets. Operations in the field are outsourced to contractors selected through a robust contractor selection process and regularly monitored to ensure they adhere to the corporate HSE policies, industry best practice and legal and other requirements in the countries in which the Group operates.

The Committee directs the HSE strategy and initiatives for the Group and tracks conformance to the plan on a continual basis. Formal HSE performance reporting is made to the Board at least quarterly.

Regular audits are conducted in the field to assure the Committee that the systems of both the Group and our main contractors are managing the HSE risks appropriately. These audits are supplemented by regular senior management visits to operational sites demonstrating a commitment to HSE from the top of the organisation.

Robust Crisis Management Plans and location specific incident management plans are in place to ensure the safety of staff and contractors, minimise damage to the environment and assets, as well as manage the reputational risk to the organisation. These plans are tested regularly with full emergency response exercises involving all parts of the organisation.

HSE Committee activities during 2016

During 2016 the HSE Committee:

- monitored and regularly reviewed the corporate HSE system against the requirements of ISO 14001 and OHSAS 18001 environmental and health and safety standards to ensure the system remained compliant with the principles of the respective standards;
- monitored and regularly reviewed the Group operations in Canada with specific HSE reporting systems, incident investigation systems and emergency management plans implemented at each site, interfaced with those of our contractors where appropriate;
- ensured that crisis management and incident response training was given throughout the organisation;
- monitored developments in legislative and regulatory requirements through specialist third parties and communicated changes to the wider organisation; and
- integrated the Rainbow Assets into the Group's HSE management systems and emergency response procedures.

Keith Bush
Chairman of the HSE Committee
24 April 2017

The Audit Committee

The role of the Audit Committee

The Audit Committee is governed by Terms of Reference which are agreed by the Board and subject to annual review. The principle objectives of the Committee are to:

- monitor the integrity of the published financial information of the Group;
- monitor the Group's internal control procedures and risk management system;
- make recommendations to the Board regarding the appointment, re-appointment and removal of external auditors; and
- review whistleblowing arrangements and the Group's procedures to prevent bribery and corruption.

Activities during 2016

The Committee met three times in 2016 to execute its responsibilities. The meetings focused on audit planning, risk management, and approval of the interim and final results.

In addition the Committee conducted an audit tender process, as a result of which Deloitte LLP were appointed as auditors. The Committee would like to thank KPMG LLP for their services as auditors over the last eight years.

Accounting, tax and financial reporting

The Group financial statements and accounting policies are reviewed by the Committee to comply with International Financial Reporting Standards. In addition the annual budget, liquidity risk, changes to the Corporate Governance Code and statutory audit requirements are all considered on an annual basis. As part of the process the Committee considers reports from the external auditors on the assessment of the internal control environment.

Internal controls and risk

The Board assigns to the Committee the responsibility of monitoring and improving the Group's internal controls governing the finances of the business. The system of internal controls is vital in managing the risks that face the Group and safeguarding shareholders' interests. It is the Board's objective to be aware of the risks, to mitigate them where possible, to insure against them where appropriate and to manage the residual risk in accordance with the objectives of the Group.

External auditors

The Committee reviews the findings of the external audit and then approves the scope of work to be undertaken for the next financial reporting year. In addition, a review of the effectiveness of the external audit process is undertaken and an annual assessment of the external auditors independence is made.

Whistleblowing and prevention of bribery and corruption

The Committee undertakes a review of whistleblowing policy arrangements and the Group's procedures to prevent bribery and corruption to assess the effectiveness of the Group's Anti-Bribery and Corruption Annual Plan. The Committee is pleased to report that no incidents were raised during 2016, or have been raised to date in 2017.

Iain M Lanaghan
Chairman of the Audit Committee
24 April 2017

Report on Directors' Remuneration

This report sets out the details of the remuneration policy for the Group's Directors, describes its implementation and discloses the amounts paid in 2016. The report meets statutory requirements, in particular the relevant regulations on Directors' remuneration reports pursuant to the Companies Act 2006 and provisions of the Code as prescribed for AIM quoted companies. Additional remuneration details have been offered voluntarily.

Remuneration Committee membership and process

During 2016 the Remuneration Committee comprised the Non-executive Chairman, Jon Murphy and the Senior Independent Non-executive Director Iain Lanaghan. Campbell Airlie was appointed the Chairman of the Remuneration Committee in 2017.

The Committee met three times during 2016 to determine the remuneration arrangements and contracts of the Directors and senior employees.

Activities during 2016

During 2016 the Committee discussed and decided upon:

- the approval of the award of nil-cost options to Directors and all employees; and
- the approval of the ongoing award of nil-cost options as a substitute for the foregone salaries of Directors and certain senior management.

Remuneration policy

The Committee aims to ensure that total remuneration is set at an appropriate level for the Group and its operations.

The objectives and core principles of the remuneration policy are to:

- ensure remuneration levels support the Group strategy;
- ensure that there is an appropriate link between performance and reward;
- ensure alignment of Directors, senior management and shareholder interests;
- ensure that long term incentives are linked to shareholder return;
- enable the Group to recruit, retain and motivate individuals with the skills, capabilities and experience to achieve its objectives; and
- strengthen teamwork by enabling all employees to share in the success of the business.

There are four elements of the remuneration package for Executive Directors and senior management:

- basic annual salary or fees;
- benefits in kind;
- discretionary annual bonus; and
- a long term incentive plan, the Value Creation Plan ("VCP").

Basic annual salary or fees

An Executive Director's basic salary and the other fixed elements of pay are usually determined by the Committee at the beginning of each year with any changes taking effect from 1 January. The individual salaries and benefits of Executive Directors are reviewed and adjusted taking into account individual performance, market factors and sector conditions.

During the year, the basic annual salaries paid to the Board continued to be paid at a reduced rate of approximately two thirds of the contractual levels, to help reduce the overall general and administrative cost of the Group, given the difficult industry environment. As previously agreed by the Remuneration Committee, nil-cost options were issued as a salary substitute on a quarterly basis for approximately half of the total reduction. The Remuneration Committee review this substitute mechanism on a quarterly basis and decide when the substitute will cease and basic annual salaries will be raised back to their contractual amounts. It is expected that the salary substitution scheme will be cancelled and contractual salaries partly reinstated after the year end with the Remuneration Committee considering a one off award of nil-cost options for the further salary foregone since March 2015.

Benefits in kind

Benefits provided to Executive Directors include critical illness cover, private medical insurance and a pension contribution of three per cent. of basic annual salary in 2016, all of which are offered to all employees.

Discretionary annual bonus

A cash bonus award for performance during 2016 has been made to all staff and Executive Directors, with the majority of the award to Executive Directors proposed to be taken in nil-cost options.

Report on Directors' Remuneration continued

VCP

Under the VCP, participants have been awarded performance units which have no value at grant ("Units"). The plan has a total of one million Units, the majority of which have been allocated to the Executive Directors and senior management with 15 per cent. still available to new participants. Units will normally convert into a number of ordinary shares in the form of nil-cost options at three dates during a five year period, the number of which are determined as set out below. Value becomes attributable to the plan if the Measurement Price exceeds the Threshold Price at the respective Measurement Dates, where:

- the Threshold Price is the higher of a 20 per cent. per annum compound growth rate from:
  - the grant price, which is £0.15 per share and represents the starting base price for the VCP, and
  - the Measurement Price used at a previous Measurement Date;
- the Measurement Dates are three, four and five years after the establishment of the scheme, respectively 8 May 2018, 8 May 2019 and 8 May 2020;
- the Measurement Price is the volume weighted share price of the Group for the 30 calendar days prior to and ending on a Measurement Date; and
- the Value Attributable to the scheme is 15 per cent of the difference between the Measurement Price and the Threshold Price multiplied by the number of shares in issue (the "Value Attributable").

Value Attributable earned under the VCP is converted into a number of nil-cost options at each Measurement Date. Any nil-cost options earned at each Measurement Date will not be exercisable until the end of the five year Measurement Period, in order to increase the alignment of interests between the participants and shareholders over the longer term. At the end of the five year period the Directors are required to own the equivalent in shares of the value of their basic annual salary.

Non-executive Directors' fees

The Non-executive Directors are paid a fee for carrying out their duties and responsibilities as disclosed in the table below. The Non-executive Directors reduced their fees on the same terms as the Executive Directors during 2016. The Non-executive Directors have waived fees for acting as members of the Group's various committees.

Directors' service contracts

The notice period for Keith Bush and Nick Morgan is six months, unless there is a change of control and the Director is removed from office at which point the notice period will be extended to 12 months. Jon Murphy and Iain Lanaghan have a notice period of three months and Campbell Airlie does not have a notice period. The Directors' contracts do not contain any further obligations on the Group.

Loss of office payments

Group policy for loss of office payments is to provide payment to cover contractual rights. No loss of office payments were made to Directors in 2016.

Percentage change in remuneration of Director undertaking the role of CEO

The percentage change in the remuneration of the CEO compared to the Group average percentage change in respect of the employees from 2015 to 2016 is detailed in the table below.

	Salary	Benefit	Pensions	Bonus
Chief Executive Officer	-26.23%	-7.82%	-	100%
Average Employees	-2.9%	4.78%	1.6%	343.3%

	Year ended 31 December 2016					Year ended 31 December 2015				
Presented in USD	**Salary or fees $'000**	**Bonus $'000**	**Taxable benefits $'000**	**Pension $'000**	**Total $'000**	Salary or fees $'000	Bonus $'000	Taxable benefits $'000	Pension $'000	Total $'000
Executive Directors (salaries):										
K R Bush	**203**	**27**	**7**	**10**	**247**	311	-	8	11	330
N T Morgan	**203**	**27**	**5**	**9**	**244**	299	-	7	10	316
	406	**54**	**12**	**19**	**491**	610	-	15	21	646
Non-Executive Directors (fees):										
C J Airlie (appointed 19.12.16)	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
I M Lanaghan	**28**	**-**	**-**	**-**	**28**	42	-	-	-	42
J D Murphy	**41**	**-**	**-**	**-**	**41**	65	-	-	-	65
S G Gibson (resigned 31.03.15)	**-**	**-**	**-**	**-**	**-**	12	-	-	-	12
	69	**-**	**-**	**-**	**69**	119	-	-	-	119
Total Directors	**475**	**54**	**12**	**19**	**560**	729	-	15	21	765

Report on Directors' Remuneration

Directors salaries were paid in GBP Sterling. The amounts shown above have been translated from GBP at an average exchange rate of US $1.3555 per £1 Pound Sterling (2015: $1.5385).

Relative importance of spend on pay
The table below shows the Group's actual spend on all employees relative to capital expenditure as shown on the cash flow statement (as calculated in settlement currency GBP).

	2016 $ million	2015 $ million	Change
Employee cost	**2**	3	-33%
Capital expenditure	**2**	5	-60%

Warrants and options held by Directors serving at 31 December 2016 were as follows:

	At 1 January 2015 '000s	Issued '000s	Exercised '000s	Lapsed '000s	**At 1 January 2016 '000s**	**Issued '000s**	**Exercised '000s**	**Lapsed '000s**	**At 31 December 2016 '000s**
K R Bush:									
At 100.0p (exercisable by 30.06.16)	100	-	-	-	**100**	**-**	**-**	**(100)**	**-**
At 100.0p (exercisable by 30.06.17)	100	-	-	-	**100**	**-**	**-**	**-**	**100**
Nil-cost (exercisable by 08.05.25)	-	210	-	-	**210**	**-**	**-**	**-**	**210**
Nil-cost (exercisable by 12.07.26)	-	-	-	-	**-**	**2,137**	**-**	**-**	**2,137**
	200	210	-	-	**410**	**2,137**	**-**	**(100)**	**2,447**
I M Lanaghan:									
Nil-cost (exercisable by 12.07.26)	-	-	-	-	**-**	**89**	**-**	**-**	**89**
	-	-	-	-	**-**	**89**	**-**	**-**	**89**
N T Morgan:									
Nil-cost (exercisable by 08.05.25)	-	168	-	-	**168**	**-**	**-**	**-**	**168**
Nil-cost (exercisable by 12.07.26)	-	-	-	-	**-**	**1,798**	**-**	**-**	**1,798**
	-	168	-	-	**168**	**1,798**	**-**	**-**	**1,798**
J D Murphy									
Nil-cost (exercisable by 12.07.26)	-	-	-	-	**-**	**179**	**-**	**-**	**179**
Total	200	378	-	-	**578**	**4,203**	**-**	**(100)**	**4,681**

Details of when the warrants and options above were granted are disclosed in note 20 "Share Capital".

This report was approved by the Board on 24 April 2017 and signed on its behalf by Campbell Airlie.

Campbell Airlie
Chairman of the Remuneration Committee
24 April 2017

Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2016.

Principal activity and review of the business

The activities of the Group are the exploration, appraisal, development and production of oil and gas assets. The areas of activity during 2016 were Canada, Italy, French Guiana and Australia. The Group's head office is in the UK.

Results and dividends

The Group financial statements are set out in pages 20 to 58 and are presented in US Dollars. The Group's profit for the year was $3.0 million (2015: loss of $10.2 million). The Directors do not recommend the payment of a dividend for the year.

Going concern

The Group's business activities, together with the factors likely to affect its future development and performance are set out in the Chairman's and Chief Executive Officer's Statement and the Review of Operations. The financial position of the Group, its net cash position and liabilities are described in the Group Financial Review. Further information on the Group's exposure to financial risks and the management thereof is provided in note 23. Taking into consideration the Group's year end cash position of $6.6 million and future revenue from existing oil and gas fields, the Group has adequate financial resources and the Directors believe that the Group is well placed to meet the costs of the Group's current financial commitments. The Board's review of the accounts, budgets and financial plan lead the Directors to believe that the Group has sufficient resources to continue in operation at least until the end of 2018 and they are managing the Group's assets to realise further capital to allow the development and growth of the business beyond that point. The financial statements are therefore prepared on a going concern basis.

Directors and their interests

The Directors of the Group all served throughout the year, except Campbell Airlie who was appointed to the Board on 19 December 2016. There are no requirements other than under the terms of the VCP detailed on page 14, for Directors to hold shares. The Directors' beneficial interests in the shares of the Group as at the below dates were:

Name	**At 31 December 2016 (ordinary 1p shares)**	At 31 December 2015 (ordinary 1p shares)
Directors		
C J Airlie	**-**	-
K R Bush	**590,735**	450,000
I M Lanaghan	**427,032**	217,000
N T Morgan	**720,522**	448,000
J D Murphy	**2,403,698**	1,425,220
Total	**4,141,987**	2,540,220

Directors have been granted warrants and share options exercisable into shares of the Group. Further details of these interests are shown in the Report on Directors' Remuneration on page 15.

Other than as shown above, no Director had any interest in the shares of the Group or any of its subsidiaries at 31 December 2016 or at 31 December 2015.

Jon Murphy retires from office in accordance with Article 108 of the Company's Articles and, being eligible, offers himself for re-election at the upcoming AGM. Jon Murphy is entitled to a notice period of three months in his service contract.

Campbell Airlie retires from office in accordance with Article 113 of the Company's Articles and, being eligible, offers himself for re-election at the upcoming AGM. Campbell Airlie is not entitled to a notice period.

The Group maintains directors' and officers' insurance for the benefit of Directors and Officers of all Group companies, and has also indemnified the Directors to the fullest extent possible allowed under the Companies Act 2006 and the Group's Memorandum and Articles of Association.

Directors' interest in transactions

Campbell Airlie represents the interests of High Power Petroleum LLC, the Company's largest shareholder with a holding of 29.9 per cent. and is therefore not considered independent. No other Director had, during or at the end of the year, a material interest in any other contract which was significant in relation to the Group's business, except in respect of personal service agreements, warrants and options.

Directors' Report

Employees

The Group seeks to keep employees informed and involved in the operations and progress of the business by means of monthly staff meetings open to all employees and Directors.

The Group operates an equal opportunities policy. The policy provides that full and fair consideration will be given to applications for employment from disabled people and people of any racial background, gender, religious belief or sexual orientation. Existing employees, who become disabled, to the extent that they are unable to perform the tasks they were employed to carry out, will have the opportunity where practical to retrain and continue in employment wherever possible.

Substantial interests

As at 31 March 2017, the Group has been advised of the following beneficial holdings of three per cent. or more of the issued share capital in accordance with the Transparency Obligations Directive (Disclosure and Transparency Rules) Instrument 2009:

Name	Shares	% of issued share capital
High Power Petroleum LLC	**94,390,000**	29.99
Cavendish Asset Management Limited	**60,116,749**	19.10
City Financial Investment Company Limited	**37,747,700**	12.00

Disclosure of information to Auditor

The Directors who held office at the date of the approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

Deloitte LLP were appointed as auditor during the year. In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP as auditor of the Group is to be proposed at the upcoming AGM.

By order of the Board on 24 April 2017.

William Anderson

Secretary to the Board

Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, the Strategic Report, the Directors' Report, the report on Directors' Remuneration and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report

to the Members of Northern Petroleum Plc

We have audited the financial statements of Northern Petroleum Plc for the year ended 31 December 2016 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated Cash Flow Statement, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 25. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework."

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Paterson ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
24 April 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Revenue	**2**	**3,638**	332
Production costs		(3,540)	(786)
Depletion and amortisation – property, plant and equipment		(686)	(98)
Cost of sales	**2**	**(4,226)**	(884)
Gross loss		**(588)**	(552)
Pre-licence costs		**(112)**	(15)
Administrative expenses	**3**	**(2,261)**	(3,967)
Loss on disposal of subsidiaries and other assets	**4**	**(231)**	(40)
Other operating income	**5**	**2,685**	786
Impairment losses	**12 & 13**	**(1,670)**	(6,268)
Loss from operations	**2 & 3**	**(2,177)**	(10,056)
Finance costs	**8**	**(355)**	(666)
Finance income	**9**	**14**	1
Loss before tax		**(2,518)**	(10,721)
Tax credit	**10**	**5,544**	558
Profit / (loss) for the year		**3,026**	(10,163)
Other comprehensive income / (loss):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(52)**	(3,900)
Other comprehensive loss for the year, net of income tax		**(52)**	(3,900)
Total comprehensive income / (loss) for the year		**2,974**	(14,063)
Profit / (loss) attributable to			
Equity shareholders of the Company		**3,125**	(10,140)
Non-controlling interests		**(99)**	(23)
		3,026	(10,163)
Total comprehensive income / (loss) attributable to			
Equity shareholders of the Company		**3,073**	(14,040)
Non-controlling interests		**(99)**	(23)
		2,974	(14,063)
Earnings per share			
Basic earnings / (loss) per share on profit / (loss) for the year	**11**	**2.0 cents**	(10.3) cents
Diluted earnings / (loss) per share on profit / (loss) for the year	**11**	**2.0 cents**	(10.3) cents

All results are from continuing operations.

The notes on pages 28 to 58 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2016

	Notes	2016 $'000	2015 $'000
Assets			
Non-current assets			
Intangible assets	12	**24,553**	25,749
Property, plant and equipment	13	**10,814**	4,045
Deferred tax assets	19	**4,968**	-
		40,335	29,794
Current assets			
Inventories	15	**109**	13
Trade and other receivables	16	**1,453**	658
Cash and cash equivalents		**6,584**	2,417
		8,146	3,088
Total assets		**48,481**	32,882
Liabilities			
Current liabilities			
Trade and other payables	17	**2,678**	974
		2,678	974
Non-current liabilities			
Trade and other payables	17	**239**	553
Provisions	18	**7,221**	1,297
Deferred tax liabilities	19	**2,137**	2,066
		9,597	3,916
Total liabilities		**12,275**	4,890
Net assets		**36,206**	27,992
Capital and reserves			
Share capital	20	**10,575**	9,034
Share premium		**22,390**	18,833
Merger reserve		**14,190**	14,190
Share incentive plan reserve		**377**	349
Foreign currency translation reserve		**(8,978)**	(8,926)
Retained earnings and other distributable reserves		**(2,306)**	(5,493)
Equity attributable to owners of the parent		**36,248**	27,987
Non-controlling interests		**(42)**	5
Total equity		**36,206**	27,992

The notes on pages 28 to 58 form part of these financial statements. These financial statements were approved and authorised for issue by the Board of Directors on 24 April 2017 and were signed on its behalf by:

K R Bush
Director

N T Morgan
Director

REGISTERED NO. 02933545

Company Statement of Financial Position

at 31 December 2016

	Notes	2016 $'000	2015 $'000
Assets			
Non-current assets			
Intangible assets	12 b	-	-
Property, plant and equipment	13 b	35	190
Investments	14	26,835	21,992
		26,870	22,182
Current assets			
Trade and other receivables	16	6,205	6,646
Cash and cash equivalents		4,118	1,349
		10,323	7,995
Total assets		37,193	30,177
Liabilities			
Current liabilities			
Trade and other payables	17	1,334	2,190
		1,334	2,190
Total liabilities		1,334	2,190
Net assets		35,859	27,987
Capital and reserves			
Share capital	20	10,575	9,034
Share premium		22,390	18,833
Merger reserve		14,190	14,190
Share incentive plan reserve		377	349
Retained earnings and other distributable reserves		(11,673)	(14,419)
Equity attributable to owners of the parent		35,859	27,987

The Company reported a profit for the year ended 31 December 2016 of $2,684,000 (2015: loss of $29,570,000). The notes on pages 28 to 58 form part of these financial statements. These financial statements were approved and authorised for issue by the Board of Directors on 24 April 2017 and were signed on its behalf by:

K R Bush
Director

N T Morgan
Director

REGISTERED NO. 02933545

Consolidated Cash Flow Statement

for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Cash flows from operating activities			
Loss before tax for the year		**(2,518)**	(10,721)
Depletion and amortisation	**13**	**686**	99
Depreciation – non-oil and gas property, plant and equipment	**12 & 13**	**142**	723
Impairment losses on intangible assets	**12**	**55**	3,667
Impairment losses on property, plant and equipment	**13**	**1,615**	2,601
Loss on disposal of subsidiaries, investments and property, plant and equipment	**4**	**231**	40
Partial recovery of doubtful debts	**5**	**(674)**	-
Credit arising from bargain purchase of property, plant and equipment	**5**	**(2,011)**	-
Finance income	**9**	**(14)**	(1)
Finance charges	**8**	**354**	154
Foreign exchange loss	**8**	**1**	512
Share-based payments	**3 & 20**	**90**	23
Net cash outflow before movements in working capital		**(2,043)**	(2,903)
Increase in inventories		**(95)**	(16)
Decrease in trade and other receivables		**85**	748
Increase / (decrease) in trade and other payables		**1,724**	(4,267)
Net cash inflow / (outflow) from changes in working capital		**1,714**	(3,535)
Cash outflow from operating activities			
Cash outflow from operations		**(329)**	(6,438)
Interest received		**14**	1
Interest paid		**(43)**	(10)
Taxes (paid) / refunded		**(14)**	81
Net cash outflow from operating activities		**(372)**	(6,366)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,394)**	(4,005)
Expenditure on exploration and evaluation assets		**(402)**	(1,139)
Business acquisitions	**24**	**(382)**	-
Sale of subsidiaries, net of cash disposed of	**4**	**(37)**	-
Sale of property, plant and equipment	**4**	**1,896**	11
Net cash outflow from investing activities		**(319)**	(5,133)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**5,391**	2,427
Costs and fees associated with the issue of ordinary shares		**(293)**	(97)
Repayment of government loan		**(380)**	(382)
Capital contributions from non-controlling interests		**52**	35
Net cash inflow from financing activities		**4,770**	1,983
Net increase in cash and cash equivalents		**4,079**	(9,516)
Cash and cash equivalents at start of year		**2,417**	12,143
Effect of exchange rate movements		**88**	(210)
Cash and cash equivalents at end of year		**6,584**	2,417

There have been no significant non-cash transactions during either year.

Consolidated Statement of Changes in Equity

for the year ended 31 December 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 / (loss) for the year	-	-	-	-	(52)	3,125	3,073	(99)	2,974
Contributions by and distributions to owners of the Company									
Issue of shares during the year	1,541	3,850	-	-	-	-	5,391	-	5,391
Costs and fees associated with share issue	-	(293)	-	-	-	-	(293)	-	(293)
Equity share warrants lapsed or cancelled	-	-	-	(62)	-	62	-	-	-
Share-based payments	-	-	-	90	-	-	90	-	90
Total contributions by and distributions to owners of the Company	**1,541**	**3,557**	**-**	**28**	**-**	**62**	**5,188**	**-**	**5,188**
Changes in ownership interests in subsidiaries									
Capital contributions from non-controlling interests	-	-	-	-	-	-	-	52	52
Total changes in ownership interests in subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**52**	**52**
At 31 December 2016	**10,575**	**22,390**	**14,190**	**377**	**(8,978)**	**(2,306)**	**36,248**	**(42)**	**36,206**

Consolidated Statement of Changes in Equity

for the year ended 31 December 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 loss for the year	-	-	-	-	(3,900)	(10,140)	(14,040)	(23)	(14,063)
Contributions by and distributions to owners of the Company									
Issue of shares during the year	809	1,618	-	-	-	-	2,427	-	2,427
Costs and fees associated with share issue	-	(97)	-	-	-	-	(97)	-	(97)
Equity share warrants lapsed or cancelled	-	-	-	(158)	-	158	-	-	-
Share-based payments	-	-	-	23	-	-	23	-	23
Total contributions by and distributions to owners of the Company	809	1,521	-	(135)	-	158	2,353	-	2,353
Changes in ownership interests in subsidiaries									
Capital contributions from non-controlling interests	-	-	-	-	-	-	-	35	35
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	35	35
At 31 December 2015	9,034	18,833	14,190	349	(8,926)	(5,493)	27,987	5	27,992

Company Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital $'000	Share premium account $'000	Merger reserve $'000	Share incentive plan reserve $'000	Retained earnings and other distributable reserves $'000	Total $'000
At 1 January 2015	8,225	17,312	14,190	484	14,993	55,204
Total comprehensive loss for the year	-	-	-	-	(29,570)	(29,570)
Contributions by and distributions to owners of the Company						
Issue of shares during the year	809	1,618	-	-	-	2,427
Costs and fees associated with share issue	-	(97)	-	-	-	(97)
Equity share warrants lapsed or cancelled	-	-	-	(158)	158	-
Share-based payments	-	-	-	23	-	23
Total contributions by and distributions to owners of the Company	809	1,521	-	(135)	158	2,353
At 31 December 2015	**9,034**	**18,833**	**14,190**	**349**	**(14,419)**	**27,987**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**2,684**	**2,684**
Contributions by and distributions to owners of the Company						
Issue of shares during the year	**1,541**	**3,850**	**-**	**-**	**-**	**5,391**
Costs and fees associated with share issue	**-**	**(293)**	**-**	**-**	**-**	**(293)**
Equity share warrants lapsed or cancelled	**-**	**-**	**-**	**(62)**	**62**	**-**
Share-based payments	**-**	**-**	**-**	**90**	**-**	**90**
Total contributions by and distributions to owners of the Company	**1,541**	**3,557**	**-**	**28**	**62**	**5,188**
At 31 December 2016	**10,575**	**22,390**	**14,190**	**377**	**(11,673)**	**35,859**

Consolidated and Company Statement of Changes in Equity
for the year ended 31 December 2016

The following describes the nature and background to each reserve within owners' equity:

Share premium	Amount subscribed for share capital in excess of nominal value less any costs and fees associated with the issue of shares.
Other reserves:	
– Merger reserve	The notional "share premium" on the shares issued in consideration for the takeover of ATI Oil Plc, evaluated at the closing market price on the day of acquisition, 24 June 2009, less the nominal value of those shares issued.
– Share incentive plan reserve	The share incentive plan reserve captures the equity related element of the expense recognised for the issue of warrants and options, comprising of the cumulative charge to the Statement of Profit or Loss for IFRS 2 charges for share-based payments less amounts released to retained earnings upon the exercise of warrants.
Foreign currency translation reserve	Exchange differences arising on consolidating the assets and liabilities of the Group's non-US Dollar functional currency operations (including comparatives) are recognised through the Consolidated Statement of Other Comprehensive Income.
Retained earnings and other distributable reserves	Cumulative net gains and losses recognised in the financial statements plus other distributable reserves relating to the court sanctioned cancellation of the share premium account in July 2009 and the elimination of the previous deferred shares in issue and the cancellation of a proportion of the share premium account as at 31 December 2004 in accordance with the court order dated 31 October 2005.
Non-controlling interests	Amounts attributable to minority shareholders of fully consolidated subsidiaries. This represents the equity of Hague and London Oil Plc in Northpet Investments Limited. The Group held 55.9% of the ordinary share capital of Northpet Investments Limited at 31 December 2016.

Notes to the Accounts

for the year ended 31 December 2016

1. Accounting Policies

The principal accounting policies applied in the preparation of these Company and Group consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The Company and Group consolidated financial statements have both been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB"), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. The Company Financial Statements have therefore been prepared in accordance with Financial Reporting Standard 101 (FRS 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The Company has taken advantage of Section 408(4) of the Companies Act 2006 in not presenting its own profit and loss account. The Company's profit for the year was $2,684,000 (2015: loss of $29,570,000).

The Company and Group have adopted all of the standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee that are relevant to its operations.

Going concern basis of preparation

The Group's business activities, together with the factors likely to affect its future development and performance are set out in the Chairman's and Chief Executive Officer's Statement and the Review of Operations. The financial position of the Group, its net cash position and liabilities are described in the Group Financial Review. Further information on the Group's exposure to financial risks and the management thereof is provided in note 23. Taking into consideration the Group's year end cash position of $6.6 million and forecast future revenue from existing oil and gas fields, the Group has adequate financial resources and the Directors believe that the Group is well placed to meet the costs of the Group's current financial commitments. The Board's review of the accounts, budgets and financial plan lead the Directors to believe that the Group has sufficient resources to continue in operation at least until the end of 2018 and they are managing the Group's assets to realise further capital to allow the development and growth of the business beyond that point. The 2016 financial statements are therefore prepared on a going concern basis.

Functional and presentational currency

The functional currency of the Parent Company is considered to be the US Dollar and the Group financial statements have been presented in US Dollars.

Changes in accounting policies

Adoption of new and revised standards

A. Impact of new International Financial Reporting Standards

There are no new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

B. Not yet adopted

At the date of approval of these financial statements, the following Standards or Interpretations were in issue but not yet effective:

IFRS 9 'Financial Instruments' will supersede IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 covers classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. The Group does not expect to adopt IFRS 9 before 1 January 2018. The Directors anticipate that IFRS 9 will not have material effects on the Group and Company's financial statements.

IFRS 15 'Revenue from Contracts with Customers' provides a single model for accounting for revenue arising from contracts with customers and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 will supersede IAS 18 'Revenue'. The Group does not expect to adopt IFRS 15 before 1 January 2018. The Directors anticipate that IFRS 15 will not have material effects on the Group and Company's financial statements.

Notes to the Accounts

for the year ended 31 December 2016

1. Accounting Policies

The IASB has issued IFRS 16 'Leases' which provides a new model for lease accounting in which all leases, other than short term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortisation of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and is expected to have a limited effect on the Group's financial statements, increasing the Group's recognised assets and liabilities and potentially affecting the presentation and timing of recognition of charges in the income statement. Information on the Group's leases currently classified as operating leases, which are not recognised on the balance sheet, is provided in note 21. The Group does not expect to adopt IFRS 16 before 1 January 2019. The Directors anticipate that IFRS 16 will have only a limited effect on the Group and Company's financial statements.

There are no other Standards and Interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and interests in joint ventures and associates made up to 31 December 2016.

Subsidiaries

The Company determines whether it is a parent by assessing whether it controls one or more investees (potential subsidiaries). The Company considers all relevant facts and circumstances when assessing whether it controls an investee. The Company controls an investee (subsidiary), when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group financial statements incorporate the assets, liabilities and results of operations of the Company and its subsidiaries. The results of subsidiaries acquired and disposed of during a financial year are included from the effective dates of acquisition to the effective dates of disposal. Where necessary, the accounting policies of the subsidiaries are changed to ensure consistency with the policies adopted by the Group when presenting consolidated financial statements. The accounting policies of the Company are the same as the accounting policies of the Group hereafter referred to as the Group accounting policies.

Investments

In the Company's Financial Statements, investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Impairments are recognised where the Directors assess that the recoverability of an investment is less than its cost.

Non-controlling interests

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in the profit or loss statement.

Intangible assets

Oil and gas assets: exploration and evaluation

All expenditures incurred in connection with exploration and evaluation of oil and gas assets ("E&E"), including directly attributable overheads, are capitalised in separate geographical cost pools. Cost pool groupings are based on geological basins and play types. The Group considers that Virgo, Alberta (Canada); Rainbow, Alberta (Canada); South Australia (Australia); French Guiana (France); southern Adriatic (Italy) and Italy (excluding the southern Adriatic); are cost pools. Intangible E&E costs incurred in a geographical area where the Group has no established cost pool are initially capitalised as intangible non-current assets except where they fall outside the scope of IFRS 6 Exploration for and Evaluation of Mineral Resources whereby they are expensed as incurred, subject to other guidance under IFRS. Upon successful conclusion of the appraisal programme and determination that commercial reserves exist, such costs are transferred to tangible non-current assets as property, plant and equipment. E&E costs carried forward are assessed for impairment as described below.

Intangible non-current assets are considered for impairment at least annually by reference to the indicators in IFRS 6. Where there is an indication of impairment of an E&E asset which is within a geographic pool where the Group has tangible oil and gas assets with commercial reserves, the exploration asset is assessed for impairment together with all other cash generating units and related tangible and intangible assets in that

1. Accounting Policies

geographic pool and any balance remaining after impairment is amortised over the Proven and Probable reserves of the pool. When the exploration asset is in an area where the Group has no established pool, the exploration asset is tested for impairment separately and, where determined to be impaired, is written off.

Proceeds from the disposal of E&E oil and gas assets are credited against the relevant cost pool. Any overall surplus arising in a cost pool is credited to the income statement.

Property, plant and equipment

Oil and gas assets: development and production
Development and production assets ("D&P") are accumulated on a cash generating unit basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined above.

The net book values of producing assets are depreciated on a cash generating unit basis using the unit of production method, based on entitlement to produce by reference to the ratio of production in the period to the related commercial reserves of the cash generating unit, taking into account any estimated future development expenditures necessary to bring additional reserves into production.

An impairment test is performed for D&P assets whenever events and circumstances arise that indicate that the carrying value of development or production phase assets may exceed its recoverable amount. The aggregate carrying value is compared against the expected recoverable amount of the cash generating unit, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves.

These ceiling test values are calculated on the basis of expected future product prices or, if applicable at prices specified in a sale contract, and discounted at a post tax rate of 10% (2015: 10%) per annum, depending on risk considerations on an asset by asset basis. The cash generating unit applied for depletion and impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash generating unit where the cash flows of each field are in some way interdependent.

Decommissioning
Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. A property, plant and equipment asset of an amount equivalent to the provision is also created and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed assets. Period changes in the present value arising from discounting are included in financial costs.

Non-oil and gas assets
Property, plant and equipment are included in the statement of financial position at cost, less accumulated depreciation and any provisions for impairment.

Business combinations
The acquisition of subsidiaries is accounted for using the purchase method. The consideration of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed and included in other operating expenses. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 non-current assets held for sale and discontinued operations, which are recognised and measured at fair value less costs to sell. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Statement of Profit or Loss.

Revenue
Revenue comprises net invoiced sales of hydrocarbons to customers, excluding value added and similar taxes, but before the deduction of royalties. Also disclosed within production and pre-production segment revenue is income recognised, excluding value added and similar taxes, for charges in respect of fees for acting as operator of both production and pre-production activities, and fees for other related services, to third parties by the Group.

1. Accounting Policies

Income recognised, excluding value added and similar taxes, to other companies by the Group in respect of fees for any other services are disclosed within other operating income. Revenue is recognised on an entitlement basis once the significant risks and rewards of ownership have passed to the customer and receipt of future economic benefits is probable, which is typically the point of delivery (Canada: delivery from the Group's processing facilities into the Plains Pipeline System). Revenue from services provided is recognised once the services have been performed.

Segment reporting
In the opinion of the Directors, the Group has one class of business, being the exploration for, and development and production of, oil and gas reserves, and other related activities. The Group's primary reporting format is determined to be the geographical segment according to the location of the oil and gas asset. Currently the activities of the Group are disclosed within the following geographical segments: Canada, Italy, French Guiana, United Kingdom and Others including Australia.

Share-based payments - equity settled share-based payments
In accordance with IFRS 2 "Share-based payments", the Group reflects the economic cost of awarding shares and share options to employees, Directors, key suppliers and consultants by recording an expense in the Statement of Profit or Loss equal to the fair value of the benefit awarded. The expense is recognised in the Statement of Profit or Loss over the vesting period of the award. An accrual for employer's National Insurance is made in respect of share warrants and options granted to employees that are in profit at the year end.

Fair value is measured by use of a Black Scholes model which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

If a warrant or option is cancelled before the end of its vesting period, the remaining fair value expense not yet charged to the Statement of Profit or Loss is immediately recognised in full. Upon cancellation of the warrant there will also be a transfer of the cumulative charge recognised in respect of the transferred warrants out of the share incentive reserve and into retained earnings.

Pensions
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the Statement of Profit or Loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Depreciation
The cost of property, plant and equipment, other than costs directly related to oil and gas assets, is written off by equal annual instalments over the expected useful lives of the assets, as follows:

- leasehold improvements – four years
- computer hardware and software – four years
- office equipment – four years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Inventories
Inventories comprise oil and gas in tanks and field parts and supplies, all of which are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less marketing costs.

Lease commitments
The annual rentals under operating leases are charged to the Statement of Profit or Loss on a straight-line basis over the term of the lease.

Notes to the Accounts continued

for the year ended 31 December 2016

1. Accounting Policies

Financial instruments

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was required. The Group has not classified any of its financial assets as held to maturity.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (i.e. trade receivables) but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net; such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Profit or Loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, based on the relevant exchange rates at the balance sheet date.

Financial liabilities

The Group currently classifies its financial liabilities into current and non-current liabilities. The Group has not classified any of its liabilities at fair value through the Statement of Profit or Loss.

Government grants and disclosure of government assistance

Government grants received in respect of intangible assets or property, plant and equipment are offset against the costs of the related assets. Government loans received at below market rates of interest are fair valued at the date of inception. The fair value discount element of the loan is offset against the cost of the asset to which it relates as it is treated as a grant. The fair value of the loan is unwound as an implied interest cost over the life of the loan. The market rate of interest is determined to be 10%.

Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares and unclassified ordinary shares are classed as equity instruments.

Foreign currencies

Foreign currency transactions of individual companies within the Group are translated in the individual company's functional currency at the rates ruling when the transactions occurred. Monetary assets and liabilities denominated in other currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the Statement of Profit or Loss. The functional currency of the Parent Company is considered to be the US Dollar and the Group financial statements have been presented in US Dollars.

On consolidation, assets and liabilities of subsidiaries, associate undertakings and joint ventures which are denominated in other currencies are translated into US Dollars at the rate ruling at the balance sheet date. Income and cash flow statements are translated at average rates of exchange prevailing during the year. Exchange differences resulting from the translation at closing rates of net investments in subsidiaries, associate undertakings and joint ventures, together with differences between earnings for the year translated at average and closing rates, are dealt with in the foreign currency translation reserve. Details of the current and prior year exchange rates used in these accounts are disclosed in note 23.

Notes to the Accounts
for the year ended 31 December 2016

1. Accounting Policies

Taxation
The tax expense represents the sum of the tax currently payable and movements in deferred tax.

Current tax, including UK Corporation and any overseas tax, is provided for at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets and liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated on an undiscounted basis at the tax rates that are expected to apply in the period when the liability is anticipated to be settled or the asset is anticipated to be realised, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the Statement of Profit or Loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Critical accounting judgments and key sources of estimation uncertainty
The preparation of the consolidated financial statements requires management to make estimates and assumptions concerning the future that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The resulting accounting estimates may, by definition, differ from the related actual results.

Details of the Group's significant accounting judgments and critical accounting estimates are set out in these financial statements and include:

Judgements

Carrying value of property, plant and equipment (note 13); and
Carrying value of intangible exploration and evaluation assets (note 12)
Valuation of petroleum and natural gas properties: judgements regarding timing of regulatory approval, the general economic environment and the ability to finance future activities through the issuance of debt or equity has an impact on impairment analysis of property, plant and equipment and of intangible exploration and evaluation assets, and hence on their carrying values. All these factors may impact the viability of future commercial production from developed and unproved properties, including major development projects, and therefore there may be a need to recognise an impairment. The timing of an impairment review and the judgement of when there could be a significant change affecting the carrying value of plant property and equipment or intangible exploration assets is a critical accounting judgement in itself.

Fair value judgements regarding the fair value of businesses acquired (note 24)
In accordance with IFRS3 "Business Combinations", the Directors use their judgement in arriving at the fair value of the assets and liabilities acquired. As with the judgements regarding oil and gas assets above, the Directors make judgements concerning the regulatory environment, the general economic environment and the ability to finance the continuance and expansion of activities being acquired through the issuance of debt or equity.

Recognition and carrying value of deferred tax assets (note 19)
In accordance with IAS 12 "Income Taxes" a deferred tax asset is recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The Directors use their judgement in deciding the extent to which it is probable that taxable profits will be available based on estimates of future profits, judgements of fiscal risk and tax planning advice.

1. Accounting Policies continued

Estimates

Carrying value of property, plant and equipment (note 13); and
Carrying value of intangible exploration and evaluation assets (note 12)
Consideration of future cash flows used to assess impairment (see judgements above), includes estimates relating to oil and gas reserves, future production rates, overall costs, discount rates, and oil and natural gas prices.

Commercial reserves estimates
A number of critical accounting estimates are dependent upon oil and gas reserve estimates. These include the depletion of D&P assets as well as the recoverability of intangible and D&P assets.

Oil and gas reserve estimates: estimation of recoverable reserves includes assumptions regarding commodity prices, exchange rates, production and transportation costs all of which impact future cash flows. It also requires the interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in estimated reserves can impact developed and undeveloped property carrying values, asset retirement costs and the recognition of income tax assets, due to changes in expected future cash flows. Management consults third party experts and obtains external technical assurance when making these estimates. Reserve estimates are also integral to the amount of depletion and depreciation charged to income.

Subsidiaries may report changes in their reserves from time to time. Only where such changes in a subsidiary's reserves are material to the Group or have a material impact on the Group financial results does the Group publish revised reserve data. This prevents numerous immaterial changes to Group reserves being announced.

Estimation of the fair value of businesses acquired (note 24)
The valuation of businesses acquired, like carrying values of oil and gas assets above, includes estimates relating to oil and gas reserves, future production rates, overall costs, discount rates, and oil and natural gas prices.

Decommissioning costs (note 18)
Asset retirement obligations: the amounts recorded for asset retirement obligations are based on each field's operator's best estimate of future costs and the remaining time to abandonment of the oil and gas properties, which may also depend on commodity prices and any future changes to national regulations. Management consults government regulators and/or third party experts when making these estimates. Estimated future costs for decommissioning included in Provisions on the Consolidated Statement of Financial Position are discounted at long term, government bond, risk free interest rates.

Recognition and carrying value of deferred tax assets (note 19)
Estimates of future profits, the tax on which can utilise deductible temporary differences, rely on accurate profit forecasts and tax planning models, which in turn rely on estimates of commercial reserves, decommissioning costs, commodity prices, exchange rates, production and transportation costs, administration costs and the cost and deductibility of interest on debt all of which impact future cash flows.

Notes to the Accounts
for the year ended 31 December 2016

2. Segmental Information

During 2016 the Group has maintained the management reporting information, provided to the Chief Executive Officer, with the same geographic reporting segments used in 2015. The United Kingdom is the home of the head office; Italy is involved in exploration and appraisal operations; Canada is involved in production, development and exploration operations; French Guiana was involved in exploration operations until the expiry of the permit in June 2016; and the "Other incl. Australia" segment comprises exploration operations in Australia, plus some pre-licence expenditure in respect of exploration and production possibilities in new countries. The segment disclosures are based on the components of the business that the Chief Executive Officer and Board monitor in making decisions about operating matters. Such components are identified on the basis of internal reports that the Board reviews regularly.

Exploration, development and production

2016 **Group**	**UK / Corporate $'000**	**Italy $'000**	**Canada $'000**	**French Guiana $'000**	**Other Incl. Australia $'000**	**Total $'000**
Revenue from external customers						
Oil	-	-	3,468	-	-	**3,468**
Gas and gas condensate	-	-	22	-	-	**22**
Oil processing and other fees	-	-	148	-	-	**148**
	-	-	**3,638**	-	-	**3,638**
Cost of sales						
Production costs	-	-	(3,540)	-	-	**(3,540)**
Depletion and amortisation -plant, property and equipment	-	-	(686)	-	-	**(686)**
	-	-	**(4,226)**	-	-	**(4,226)**
Gross profit / (loss)	-	-	**(588)**	-	-	**(588)**
Pre-licence costs	-	(14)	-	(98)	-	**(112)**
Administrative expenses	(1,191)	(215)	(548)	(88)	(219)	**(2,261)**
Loss on disposal of plant, property and equipment	(52)	-	(134)	-	(45)	**(231)**
Other operating income	-	674	2,011	-	-	**2,685**
Impairment losses	-	(11)	(1,615)	(44)	-	**(1,670)**
Loss from operations	**(1,243)**	**434**	**(874)**	**(230)**	**(264)**	**(2,177)**
Finance costs	(5)	(92)	(262)	4	-	**(355)**
Finance income	-	-	14	-	-	**14**
Loss before tax	**(1,248)**	**342**	**(1,122)**	**(226)**	**(264)**	**(2,518)**
Tax (charge) / credit	-	(143)	5,687	-	-	**5,544**
Loss for the year	**(1,248)**	**199**	**4,565**	**(226)**	**(264)**	**3,026**

The Group has two major customers in Canada: Macquarie Oil Services Canada Limited (revenue of $3,183,000 / 2015: $nil) and Tidal Energy Marketing Limited (revenue of $320,000 / 2015: $331,000).

Notes to the Accounts continued
for the year ended 31 December 2016

2. Segmental Information continued

Exploration, development and production

2015 Group	UK / Corporate $'000	Italy $'000	Canada $'000	French Guiana $'000	Other Incl. Australia $'000	Total $'000
Revenue from external customers						
Oil	-	-	331	-	-	331
Gas and gas condensate	-	-	1	-	-	1
	-	-	332	-	-	332
Cost of sales						
Production costs	-	-	(786)	-	-	(786)
Depletion and amortisation -plant, property and equipment	-	-	(98)	-	-	(98)
	-	-	(884)	-	-	(884)
Gross profit / (loss)	-	-	(552)	-	-	(552)
Pre-licence costs	-	(15)	-	-	-	(15)
Administrative expenses	(1,983)	(566)	(1,298)	(99)	(21)	(3,967)
Loss on disposal of plant, property and equipment	(40)	-	-	-	-	(40)
Other operating income	-	786	-	-	-	786
Impairment losses	(621)	(2,122)	(2,601)	46	(970)	(6,268)
Loss from operations	(2,644)	(1,917)	(4,451)	(53)	(991)	(10,056)
Finance costs	(504)	(125)	(37)	-	-	(666)
Finance income	-	-	1	-	-	1
Loss before tax	(3,148)	(2,042)	(4,487)	(53)	(991)	(10,721)
Tax credit	-	558	-	-	-	558
Loss for the year	(3,148)	(1,484)	(4,487)	(53)	(991)	(10,163)

2. Segmental Information

Assets and liabilities at 31 December 2016

Group	United Kingdom $'000	Italy $'000	Canada $'000	French Guiana $'000	Other Incl. Australia $'000	Total $'000
Segment assets	162	22,014	14,752	-	1	**36,926**
Cash and cash equivalents	4,118	18	2,444	-	4	**6,584**
Deferred tax assets	-	-	4,968	-	-	**4,968**
Total assets	**4,280**	**22,032**	**22,164**	**-**	**5**	**48,481**
Segment liabilities	497	611	8,923	99	8	**10,138**
Deferred tax liabilities	-	2,137	-	-	-	**2,137**
Total liabilities	**497**	**2,748**	**8,923**	**99**	**8**	**12,275**
Non controlling interests	-	-	-	(42)	-	**(42)**
Other segment items						
Capital expenditure	10	91	1,651	44	-	**1,796**
Depreciation, depletion and amortisation	(137)	-	(691)	-	-	**(828)**
Impairment losses	-	(11)	(1,615)	(44)	-	**(1,670)**
Share-based payments	90	-	-	-	-	**90**

Assets and liabilities at 31 December 2015

Group	United Kingdom $'000	Italy $'000	Canada $'000	French Guiana $'000	Other Incl. Australia $'000	Total $'000
Segment assets	334	21,908	8,222	-	1	30,465
Cash and cash equivalents	1,509	69	747	43	49	2,417
Deferred tax assets	-	-	-	-	-	-
Total assets	1,843	21,977	8,969	43	50	32,882
Segment liabilities	270	948	1,583	23	-	2,824
Deferred tax liabilities	-	2,066	-	-	-	2,066
Total liabilities	270	3,014	1,583	23	-	4,890
Non controlling interests	-	-	-	5	-	5
Other segment items						
Capital expenditure	29	268	5,055	(46)	36	5,342
Depreciation, depletion and amortisation	717	-	105	-	-	822
Impairment losses	621	2,122	2,601	(46)	970	6,268
Share-based payments	23	-	-	-	-	23

Notes to the Accounts continued
for the year ended 31 December 2016

3. Profit / (Loss) from Continuing Operations

This is stated after charging:

Group	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Depreciation of IT systems (note 12b)	-	496
Impairment of IT systems (note 12b)	-	621
Depreciation of non-oil and gas property, plant and equipment (note 13b)	**142**	227
Operating lease rentals – land and buildings	**120**	305
Operating lease rentals – other	**53**	62
Equity settled share-based payments – National Insurance	**66**	(10)
Equity settled share-based payments – IFRS 2	**90**	23
Administrative expenses – share incentives	**156**	13

Auditor's Remuneration	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Audit fees payable to the Company's auditor for the audit of the Company's financial statements	**74**	69
Fees payable to the Company's auditor and its associates for other services:		
- the audit of the Company's subsidiaries, pursuant to legislation	**11**	15
- tax compliance services	**14**	-
- tax advisory services	**3**	-
- other services	**6**	-

The Company has borne the Auditor's remuneration of its non trading UK subsidiary undertakings.

4. Loss on Disposal of Subsidiaries, Investments and Other Assets

Group	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Disposal of oil and gas plant, property and equipment and intangible assets		
Net book value of assets and liabilities disposed of	**(2,243)**	-
Disposal costs	**(87)**	-
Adjustment for economic effective date	**(18)**	-
Value of service to be provided as part of the consideration	**188**	-
Sale proceeds	**2,000**	-
Loss on disposal of oil and gas property, plant and equipment and intangible assets	**(160)**	-
Disposal of subsidiaries		
Disposal costs	**(37)**	-
Loss on disposal of subsidiaries	**(37)**	-
Disposal of Investments and other assets		
Sale proceeds	**1**	11
Net book value of assets disposed of	**(35)**	(51)
Loss on disposal of other assets	**(34)**	(40)
Loss on disposal of subsidiaries, investments and other assets	**(231)**	(40)

Following the approval by shareholders at a General Meeting on 16 December 2016, the Group disposed of 25% of its interests in all its Canadian leases and other Canadian oil and gas assets to H2P for a cash consideration of $2 million plus $188,000 of consideration in kind, (75% net working interest of $250,000), in the form of well stimulation services provided by H2P's group affiliated company, Blue Spark Energy Inc. H2P and the Group agreed an economic effective date of 1 January 2017 for the asset transfer with the Group bearing $18,000 net expenditure in relation to H2P's 25% interest between the completion date of 16 December and the end of the year. No tax liability arises as a result of this disposal.

4. Loss on Disposal of Subsidiaries, Investments and Other Assets continued

The Group has agreed further disposals of 10% of its southern Adriatic permits and applications in Italy for a consideration of $500,000 and 25% of its Australian licence for a consideration of $1 to H2P, subject to governmental and regulatory approval. As at the date of signing of the 2016 financial statements, the regulatory approvals processes in Italy and Australia have not been completed and these disposals have not yet been concluded or reflected in the financial statements. H2P has the option to earn additional equity in the southern Adriatic and Australian permit by fully funding a well in Italy, and seismic acquisition in Australia. H2P has an additional option to increase its interest in the Group's Canadian leases by a further 25% to 50% if it pays the Group $4 million before 31 December 2017.

The loss on disposal of subsidiaries relates to costs incurred in transferring the Group's Argentine subsidiary to its local director. The Argentine subsidiary was established in 2012, was not fully capitalised per local requirements and never traded.

The loss on disposal of other assets relates to the disposal of computer software and hardware following the Group's decision to migrate to a cheaper, cloud based solution. The loss on disposal in the prior year relates to the sale of excess office equipment in the UK following the relocation of the Group's head office.

5. Other Operating Income

Group	**Year ended 31 December 2016 $'000**	Year ended 31 December 2015 $'000
Bargain consideration on purchase of plant property and equipment	**2,011**	-
Partial recovery of debtor previously impaired	**674**	-
Back costs received	**-**	850
Legal expenses and other farm out costs incurred	**-**	(64)
Total	**2,685**	786

On 21 January 2016 the Group's Canadian subsidiary Ouro Preto Resources Inc. acquired a number of Rainbow area leases in Alberta, Canada. In accordance with IFRS 3 "Business combinations", the assets acquired were valued at their fair value using an internal financial model based on information from the Group's due diligence and the reserves report by a firm of independent reservoir engineers. A discount rate of 10% was used in the fair value calculation. The Group calculated that the fair value of the assets acquired exceeded the cost of purchasing the assets by $2,730,000, the bargain consideration. On acquisition the assets have been included at their fair value in plant, property and equipment and the value of the bargain consideration has been credited to the income statement as part of other operating income. A deferred tax liability of $719,000 in respect of temporary differences arises on the bargain consideration and has been netted from the total shown above. For further information on the Rainbow Asset acquisition see note 24.

In March 2017 the Group received a payment of €608,000 ($674,000) in respect of a debtor arising from the drilling of the Savio 1x well in Italy. The Savio 1x debtor had been written off, transferred to intangible assets and then subsequently impaired in the 2014 accounts, as both the timing and recoverability of the debtor were uncertain. With the recovery of €608,000 in 2017, this amount has been recognised as a debtor at 31 December 2016 and a credit recorded in other income.

During the prior year, on 5 March 2015 the Group announced that it had signed a farm out agreement, which included agreed terms of a joint operating agreement, with Shell Italia in respect of its Cascina Alberto permit, which is located onshore, north west Italy. Under the terms of the farm out agreement Shell Italia received an 80% equity interest in the Cascina Alberto permit and operatorship of the permit. Shell Italia will carry the Group for the costs of the exploration campaign, which will include a carry on the acquisition of any new seismic until the seismic costs reach $4 million and a carry on any exploration well until the well costs reach $50 million. Prior to its award in July 2014, costs related to the Cascina Alberto permit had been charged to the income statement as they were incurred. In accordance with the Group's accounting policy the proceeds of the farm out, less legal and other expenses, were initially offset against the Italian onshore cost pool. The excess net receipts were then credited to the Income Statement.

Notes to the Accounts continued
for the year ended 31 December 2016

6. Directors' Remuneration

Group & Company	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Executive salaries	**406**	610
Non-executive fees	**69**	119
Bonus	**54**	-
Defined contribution pension costs	**19**	21
Benefits in kind	**12**	15
Total emoluments	**560**	765

Details for each Director's remuneration are set out in the tables below. The total remuneration of the highest paid Director was $247,000 (2015: $330,000). Directors salaries were paid in GBP Sterling. The amounts shown above have been translated from GBP at an average exchange rate of US $1.3555 per £1 Pound Sterling (2015: $1.5385).

	Year ended 31 December 2016					Year ended 31 December 2015				
Group & Company	**Salary or fees $'000**	**Bonus $'000**	**Taxable benefits $'000**	**Pension $'000**	**Total $'000**	Salary or fees $'000	Bonus $'000	Taxable benefits $'000	Pension $'000	Total $'000
Executive Directors (salaries):										
K R Bush	**203**	**27**	**7**	**10**	**247**	311	-	8	11	330
N T Morgan	**203**	**27**	**5**	**9**	**244**	299	-	7	10	316
	406	**54**	**12**	**19**	**491**	610	-	15	21	646
Non-executive Directors (fees):										
J D Murphy	**41**	**-**	**-**	**-**	**41**	65	-	-	-	65
I M Lanaghan	**28**	**-**	**-**	**-**	**28**	42	-	-	-	42
C J Airlie (appointed 20.12.16)	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
S G Gibson (resigned 31.03.15)	**-**	**-**	**-**	**-**		12	-	-	-	12
	69	**-**	**-**	**-**	**69**	119	-	-	-	119
Total	**475**	**54**	**12**	**19**	**560**	729	-	15	21	765

Additional information on Directors' remuneration can be found in the Report on Directors' Remuneration on page 13-15.

7. Staff Costs and Numbers (including Directors)

Group	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Salaries	**1,470**	2,201
Compensation for loss of office	**114**	498
Social security costs	**161**	239
Defined contribution pension costs	**46**	59
Other benefits in kind	**32**	48
	1,823	3,045
Charge for share-based payments (note 3)	**90**	23
National insurance accrual release on share-based payments	**66**	(10)
	1,979	3,058

Based on time writing, a certain element of salaries is capitalised, predominantly at the subsidiary level, to reflect the time spent on capital projects. The amounts shown above include net salary cost to the Group capitalised during the year of $488,000 (2015: $699,000).

In August 2014 the Group introduced a new defined contribution pension scheme in the UK to which it contributes 3% of a member employee's salary in accordance with its new Workplace Pensions obligation. The pension cost charge for the period represents contributions payable by the Group to UK defined contribution pension schemes and amounted to $42,000 (2015: $56,000). In addition the Group made payments to defined contribution schemes for its Canadian employees. Contributions in Canada amounted to $4,000 (2015: $3,000). There were $4,000 (2015: $3,000) outstanding contributions at the end of the financial year. There were no prepaid contributions at either the beginning or end of the financial year.

Notes to the Accounts
for the year ended 31 December 2016

7. Staff Costs and Numbers (including Directors) continued

Excluding the Non-executive Directors, there were 10 (2015: 14) full time members of staff at the end of the year. The average number of persons employed by the Group during the year, including Executive Directors, was made up as follows:

Group	2016	2015
Technical	**3**	5
Professional	**2**	3
Operations	**3**	3
Administration	**3**	4
	11	15

8. Finance Costs

Group	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Loan interest	**5**	10
Other interest paid	**38**	-
Unwinding of discount on decommissioning provisions	**224**	31
Unwinding of discount on below market interest rate government loans	**87**	113
Foreign exchange loss	**1**	512
	355	666

In 2013 and 2014 the Group received loans from the Italian government. The loans are repayable in five annual instalments and interest is charged at 0.5% per annum. The unwinding of the fair value discount over the life of the loan is shown above as "unwinding of discount on below market interest rate government loans" and the actual interest paid is shown as "loan interest".

The foreign exchange loss reflects the effect of the movement in the Canadian Dollar and Euro against the US Dollar with respect to cash balances which were and are being held in the expectation of their investment in exploration and development.

9. Finance Income and Other Finance Gains

Group	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Bank interest receivable	**1**	1
Other interest received	**13**	-
	14	1

10. Tax Credit

a) Analysis of tax credit

Group	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Current tax:		
UK tax - current year	**-**	-
Tax on overseas operations – current year	**-**	-
Current tax - adjustment in respect of prior years	**(14)**	-
	(14)	-
Deferred tax:		
UK tax	**-**	-
Overseas tax – origination and reversal of temporary differences	**5,558**	558
Total tax credit (note 10b)	**5,544**	558

10. Tax Credit continued

During the year, the Group paid $14,000 in Italian regional tax "IRAP" in respect of the 2015 taxable profits of its Italian branch, with no taxable profits arising in the current year. IRAP is calculated annually and does not take into account past losses. During 2016, following the recognition of a $719,000 deferred tax liability on the Rainbow Asset acquisition in Canada (see note 5), the Group recognised $719,000 of its unrecognised deferred tax asset, offsetting the liability. At 31 December 2016, due to the strong performance of the Rainbow Assets since acquisition and the raising of new finance to further develop these assets, the Group recognised its remaining Canadian deferred tax assets in respect of tax losses and other temporary differences of $4,968,000 (including $4,689,000 not previously recognised from earlier years) as in the judgement of the Directors it is now probable that the Group's Canadian subsidiary will be profitable and in a tax paying position in the future and that the losses and other temporary differences will be utilised. During the year, the Group recognised an increase of $129,000 in its Italian net deferred tax liability as a result of a change in tax rates. The Group has made taxable losses in its other countries of operation, but has not recognised deferred tax credits for these losses as they are not expected to be recovered in the foreseeable future - for analysis of the tax charge by country of operation please see note 2. For more information on deferred tax see note 19.

b) Factors affecting tax credit

The tax credit for the year is higher than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The difference is explained below:

Group	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Group loss before taxation	**(2,518)**	(10,721)
Tax on Group loss before taxation at an effective rate of 20% (2015: 20.25%)	**504**	2,171
Effects of		
Expenses not deductible for corporate income tax purposes	**(246)**	(33)
Capital allowances for the period in excess of depreciation	**116**	(484)
Non-taxable income	**185**	-
Impact of tax losses carried forward and other net movements in deferred tax not recognised	**(456)**	(1,424)
Effects of different corporate tax rates on UK and overseas earnings	**47**	328
Adjustment in respect of prior years – current tax	**(14)**	-
Deferred tax asset recognised to offset deferred tax liability arising on acquisition	**719**	-
Recognition of tax losses and other temporary differences not previously recognised	**4,689**	-
Total tax credit for year	**5,544**	558

c) Factors that may affect future tax expense

The Group has unrecognised gross corporate income tax and supplementary hydrocarbon tax losses of $43.9 million (2015: $57.8 million) that are available for offset against future taxable profits. Losses that are available for offset against future taxable profits have been recognised as deferred tax assets to the extent that they offset deferred tax liabilities or will be used to offset taxable profits in the foreseeable future.

Corporate tax amendments:

UK: Reductions in the UK corporation tax rate from 20% to 19% effective from 1 April 2017 and 18% effective from 1 April 2020 were substantively enacted on 26 October 2015. Another reduction in UK corporation tax to 17% effective from 1 April 2020 was substantially enacted on 6 September 2016.

Italy: The Italian budget law for 2016, published on 30 December 2015 included a reduction of 3.5% in the rate of corporate tax (from 27.5% to 24.0%) starting as of the 2017 fiscal year.

These will reduce the Group's future tax charge. Since the issue of the last Annual Report, there have been no other significant changes enacted to tax legislation in the Group's other countries of operation that are currently anticipated to have in the near term a material effect on the Group's tax position in those jurisdictions.

11. Basic (Loss) / Earnings per Share

Basic earnings or losses per share amounts are calculated by dividing the 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 and options with exercise prices below the average share trading price for each period.

Group	2016 $'000	2015 $'000
Net profit / (loss) attributable to equity holders used in basic calculation	**3,125**	(10,140)
Net profit / (loss) attributable to equity holders used in dilutive calculation	**3,125**	(10,140)
	Number '000	Number '000
Basic weighted average number of shares	**153,968**	98,790
Dilutive potential of ordinary shares:		
Share options exercisable under Company schemes	**714**	-
Diluted weighted average number of shares	**154,682**	98,790

At 31 December 2016 there were 8,122,446 options and no warrants with exercise prices below the average share trading price for the year, (2015: 666,608), hence the number of potential dilutive ordinary shares is 8,122,446 (2015: 666,608). As the Group made a loss in 2015 there was no dilution in that year from potential ordinary shares.

Group	2016	2015
Earnings per share		
Basic earnings per share on loss for the year (cents)	**2.0 cents**	(10.3) cents
Diluted earnings per share on loss for the year (cents)	**2.0 cents**	(10.3) cents

12. Intangible Assets

a) Exploration and Evaluation Assets
Intangible assets consist of the Group's exploration projects which are pending determination of technical feasibility and commercial viability of extracting a mineral resource.

Group	Italy $'000	Canada $'000	French Guiana $'000	Other incl. Australia $'000	Total $'000
Cost					
At 1 January 2016	23,990	3,881	36,289	1,116	65,276
Additions	91	267	44	-	402
Disposals	-	(1,042)	-	-	(1,042)
Exchange movement	(683)	122	(19)	4	(576)
At 31 December 2016	**23,398**	**3,228**	**36,314**	**1,120**	**64,060**
Exploration expenditure written off					
At 1 January 2016	2,122	-	36,289	1,116	39,527
Impairment losses	11	-	44	-	55
Exchange movement	(60)	-	(19)	4	(75)
At 31 December 2016	**2,073**	**-**	**36,314**	**1,120**	**39,507**
Net book value					
At 31 December 2016	**21,325**	**3,228**	**-**	**-**	**24,553**

The disposals in Canada of $1,042,000 arise from the farm in agreement with H2P for a 25% working interest in all of the Group's Canadian leases. For further information see note 4.

The Group tests intangible assets for impairment when there is an indication that assets might be impaired. An additional impairment loss of $11,000 has been recognised against the costs capitalised in respect of the Sicily Channel licences, CR146 and CR149. These licences are currently in suspension awaiting EIA approval to drill a well. The carrying value of the permits in the southern Adriatic has not been impaired based on the potential value of the permits following any successful exploration and appraisal, and the continued level of interest in the permits by industry participants. An impairment loss of $44,000 has been recognised against the French Guiana cost pool. The French Guiana permit expired in June 2016 and the Group is considering ways to monetise the value of the data owned by its 55.9% subsidiary, Northpet Investments Limited. In the meantime the Directors have decided to continue to fully impair the French Guiana cost pool. In line with the Group's accounting policy for intangible E&E assets, the Directors have assessed the carrying value of the Canadian E&E assets and have concluded that that there are no facts or circumstances to suggest that the carrying value of the assets exceeds its future recoverable amount.

At the year end the contractual commitments for capital expenditure in respect of intangible assets was $nil (2015: $14,000), of which the Group's share was $nil (2015: $8,000).

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for the year ended 31 December 2016

12. Intangible Assets continued

The comparative tables for 2015 are detailed below:

Group	Italy $'000	Canada $'000	French Guiana $'000	Other incl. Australia $'000	Total $'000
Cost					
At 1 January 2015	26,434	3,741	36,335	1,213	67,723
Additions	268	881	(46)	36	1,139
Exchange movement	(2,712)	(741)	-	(133)	(3,586)
At 31 December 2015	23,990	3,881	36,289	1,116	65,276
Exploration expenditure written off					
At 1 January 2015	-	-	36,335	158	36,493
Impairment losses	2,122	-	(46)	970	3,046
Exchange movement	-	-	-	(12)	(12)
At 31 December 2015	2,122	-	36,289	1,116	39,527
Net book value					
At 31 December 2015	21,868	3,881	-	-	25,749

An impairment loss of $2,122,000 has been recognised against the costs capitalised in respect of the Sicily Channel licences CR146 and CR149. An impairment loss of $970,000 has been recognised against the Australia cost pool. The Group has always recognised that it would be necessary to bring in a partner to progress the PEL629 licence in the Otway basin, South Australia. The Government of South Australia has agreed to place the licence into suspension to allow time for a farm out to be completed once the short term economics improve. Given the uncertainty of the timing and likelihood of a farm out being completed the Directors have decided to impair the Australia cost pool in full.

b) Computer software

Group and Company	**Computer software $'000**
Cost	
At 1 January 2016	4,136
Disposal	(3,695)
At 31 December 2016	**441**
Amortisation	
At 1 January 2016	4,136
Charge for the year	-
Disposal	(3,695)
At 31 December 2016	**441**
Net book value	
At 31 December 2016	**-**
At 31 December 2015	-

Disposals in the year relate to accounting and procurement IT systems implemented in early 2012. Following the implementation of a Canadian software package the carrying value of the Group's former IT system has been written off.

13. Property, Plant and Equipment

a) Oil and Gas Assets

Group	Canada Developed $'000	Canada Undeveloped $'000	Total $'000
Cost			
At 1 January 2016	19,925	71	19,996
Additions	1,379	5	1,384
Changes in estimates	(324)	-	(324)
Acquisitions	10,955	-	10,955
Disposals	(8,355)	(19)	(8,374)
Exchange movement	1,293	-	1,293
At 31 December 2016	**24,873**	**57**	**24,930**
Depletion and amortisation			
At 1 January 2016	16,085	71	16,156
Charge for the year	686	-	686
Impairment losses	1,610	5	1,615
Disposals	(4,733)	(19)	(4,752)
Exchange movement	449	-	449
At 31 December 2016	**14,097**	**57**	**14,154**
Net book value			
At 31 December 2016	**10,776**	-	**10,776**

Canadian developed acquisitions of $10,955,000 in the year relate to the fair value of Rainbow Assets acquired in January 2016, including the associated abandonment liabilities, see note 24 for further details. Developed additions in the year of $1,379,000 relate to the Rainbow Assets as the Group invested in increasing production.

Changes in estimates in the year of $324,000 relates to the abandonment liabilities for the Virgo area wells. Previously the Group had relied on internal estimates to calculate the potential decommissioning and abandonment liabilities for these wells. Following the Rainbow Asset acquisition, the Group revised the abandonment estimates used to match the calculations made by the AER in measuring operators' liabilities for abandonment in the province, resulting in a lower liability and a corresponding decrease in the value of oil and gas assets, see note 18.

The net disposals during the year in Canada of $3,622,000 arise from the farm out agreement with H2P for 25% of the Group's working interests in all of the Group's Canadian leases. For further information see note 4.

2016 Impairment

The Group tests assets for impairment when there is an indication that assets might be impaired. Following the receipt of a new reserves report from independent reservoir engineers, which used lower short to medium term oil price assumptions, the 15-23 well in the Virgo area was impaired by an additional $1,408,000. The Virgo 15-23 well produced increasing volumes of water in the first half of the year and was shut in pending further evaluation. The Directors believe that the value of the well's production can be enhanced by recompleting the well, however, this work is not included in the near term work programmes and the well was impaired to its estimated recoverable amount of $444,000. The Virgo 11-30 well has also been impaired on the basis of the new reserves report. The well also produced high volumes of water with the oil and the Directors believe it too would benefit from being recompleted. The 11-30 well is not included in the near term work programmes and has been fully impaired to its recoverable amount of $nil; a charge of $566,000. The Virgo 13-33 well was impaired by $174,000 to its recoverable value of $404,000 following receipt of the new independent reserves report. All impairments were calculated using a value-in-use technique with post tax cash flows calculated based on proven and probable reserves using a post-tax discount rate of 10%. The oil price per barrel used was a weighted average over the overall life of the field of $73 per barrel (WTI) based on prices ranging from $53 in Q4 2016 to $101 beyond 2030. Following the reduction in abandonment estimates (see note 18), $533,000 of impairment charges recognised in earlier years on wells *which had book values of $nil prior to the reductions in abandonment estimates, were reversed.*

13. Property, Plant and Equipment continued

The following table reflects the additional impairment (or reversal) that would have arisen if there had been a one per cent. change in the post-tax discount rate or a $1 change in the forecast oil price realised by the Group's Canadian subsidiary over the 15-23 and 13-33 wells:

	One percent increase in after tax discount rate $'000	One percent decrease in after tax discount rate $'000	$1 increase in oil price $'000	$1 decrease in oil price $'000
Impairment / (reversal)	29	(29)	(48)	48

The other wells which have been impaired, currently have no reserves assigned to them and their impairment is not sensitive to changes in discount rate or oil price.

At the year end the contractual commitments for capital expenditure in respect of property, plant and equipment was $nil (2015: $nil), of which the Group's share was $nil (2015: $nil).

The comparative tables for 2015 are detailed below:

Group	Canada Developed $'000	Canada Undeveloped $'000	Total $'000
Cost			
At 1 January 2015	19,452	145	19,597
Additions	4,153	21	4,174
Transfers	87	(87)	-
Exchange movement	(3,768)	(8)	(3,776)
At 31 December 2015	**19,924**	**71**	**19,995**
Depletion and amortisation			
At 1 January 2015	16,060	-	16,060
Charge for the year	99	-	99
Impairment losses	2,530	71	2,601
Exchange movement	(2,605)	-	(2,605)
At 31 December 2015	**16,084**	**71**	**16,155**
Net book value			
At 31 December 2015	**3,840**	**-**	**3,840**

2015 Impairment

The Group tests assets for impairment when there is an indication that assets might be impaired. The Virgo 11-30 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 boepd during the test with 85% 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. Due to the uncertainty surrounding the economic value of the well the Directors decided to impair its carrying value by $2,530,000 to match the value of a well for which an independent reserves valuation was available, and which in the Directors' opinion, was of similar value.

13. Property, Plant and Equipment

b) Non-oil and Gas Assets

Group	Computer and office equipment $'000
Cost	
At 1 January 2016	893
Additions	10
Disposals	(695)
At 31 December 2016	**208**
Depreciation	
At 1 January 2016	688
Charge for the year	142
Disposals	(660)
At 31 December 2016	**170**
Net book value	
At 31 December 2016	**38**
At 31 December 2015	205

Disposals in the year relate to computer hardware and software following the Group's migration to a lower cost, cloud based IT platform.

Company	Computer and office equipment $'000
Cost	
At 1 January 2016	**871**
Additions	**10**
Disposals	**(684)**
At 31 December 2016	**197**
Depreciation	
At 1 January 2016	**681**
Charge for the year	**137**
Disposals	**(656)**
At 31 December 2016	**162**
Net book value	
At 31 December 2016	**35**
At 31 December 2015	190

Disposals in the year relate to computer hardware and software following the Company's migration to a lower cost, cloud based IT platform.

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14. Investments

The Group's and Company's subsidiary undertakings which are included within these consolidated accounts are:

	Country of Incorporation / registration	Principal activity	Principal country of operation	Description and proportion of shares held
Company				
Northern Petroleum (UK) Limited	England & Wales (1)	Oil and gas exploration	Italy	Ordinary shares of £0.001 – 100%
NP Offshore Holdings (UK) Limited	England & Wales (1)	Holding company	UK	Ordinary shares of £1 – 100%
NP Oil & Gas Holdings Limited	England & Wales (1)	Holding company	UK	Ordinary shares of £1 – 100%
Northern Petroleum E&P Holdings Limited	England & Wales (1)	Holding company	UK	Ordinary shares of £1 – 100%
Group				
Northpet Investments Limited*	England & Wales (1)	Oil and gas exploration	France (French Guiana)	Ordinary shares of £1 – 55.90%
Ouro Preto Resources Inc **	Canada (2)	Oil and gas exploration, development and production	Canada (Alberta)	Ordinary shares of $1 – 100%
Ouro Preto Resources Pty Limited **	Australia (3)	Oil and gas exploration	Australia (South Australia)	Ordinary shares of $1 – 100%
NP Netherlands Limited**	England & Wales (1)	Holding company	UK	Ordinary shares of £1 – 100%
Cabot Energy Limited*	England & Wales (1)	Dormant company	UK	Ordinary shares of £1 – 100%

* Shares held indirectly through its ownership of NP Offshore Holdings (UK) Limited
** Shares held indirectly through its ownership of NP Oil & Gas Holdings Limited
(1) Registered office: Chester House 3.01, Kennington Business Park, 1-3 Brixton Road, London SW9 6DE, UK
(2) Registered office: 900, 600 – 6th Ave SW, Calgary, Alberta T2P 0S5, Canada
(3) Registered office: Unit 15, Level 2, 210 Bagot Road, Subiaco, WA 6008, Australia

The Company has accounted for its investments in subsidiaries at cost, less any amounts written off.

Company	Investments in subsidiaries $'000
Cost	
At 1 January and 31 December 2016	78,173
Impairment	
At 1 January 2016	56,181
Impairment reversal	(4,843)
At 31 December 2016	**51,338**
Carrying value at 31 December 2016	**26,835**
Carrying value at 31 December 2015	21,992

Impairments booked for the Company's Canadian subsidiary, held via NP Oil & Gas Holdings Limited, were partially reversed at the end of the year to reflect the recognition of a deferred tax asset at the end of the year (see note 10) and subsidiary results for the year.

15. Inventories

Group	2016 $'000	2015 $'000
Crude oil	**36**	13
Materials, chemicals and consumable supplies	**73**	-
Total	**109**	13

There is no material difference between the replacement cost of inventories and the amount stated above. The amount of inventory which has been recognised as an expense during the year is $nil (2015: $nil). The Company had $nil (2015: $nil) inventory at the year end.

16. Trade and Other Receivables

	Group		Company	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Current assets				
Trade receivables	**370**	-	**-**	-
Other receivables	**871**	167	**21**	23
VAT recoverable	**69**	84	**39**	34
Amounts due from subsidiary undertakings	**n/a**	n/a	**6,079**	6,502
Prepayments and accrued income	**143**	407	**66**	87
Total trade and other receivables	**1,453**	658	**6,205**	6,646

Current trade and other receivables, and loans have a fair value that approximates to their book value at both balance sheet dates. In March 2015, the Group agreed a settlement with the Avobone Group for the historic debt for the Savio 1x well in Italy involving a cash payment and transfer of a VAT debtor. In March 2017, the Group received €608,000 ($674,000) in settlement of the VAT debtor. This amount has been recognised in other receivables at the year end. Other receivables also include $188,000 in respect of the consideration to be received in kind for the farm out of the Canadian oil and gas assets to H2P, see note 4. Note 23 presents an analysis of the carrying values of the Group's trade and other receivables and cash and cash equivalents by currency. Of the $370,000 trade receivable at 31 December 2016, $26,000 were past due, but not impaired (2015: $nil).

17. Trade and Other Payables

	Group		Company	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Current Liabilities				
Trade payables	**952**	75	**129**	38
Taxation and social security	**31**	1	**-**	-
Italian government loans	**347**	355	**-**	-
Other payables	**6**	4	**6**	3
Amounts due to subsidiary undertakings	**n/a**	n/a	**842**	1,921
Accruals and deferred income	**1,342**	539	**357**	228
	2,678	974	**1,334**	2,190
Non-Current Liabilities				
Italian government loans	**239**	553	**-**	-
	239	553	**-**	-
Total trade and other payables	**2,917**	1,527	**1,334**	2,190

Trade and other payables, except for Italian government loans which were initially held at fair value on receipt and whose fair value discount has been unwound during the year at a market interest rate, are measured at amortised cost and their book value approximates to fair value at 31 December 2016 and 2015.

All current liability trade and other payables are considered due within three months, apart from the Italian government loans which are repayable in twelve months. Non-current government loans are repayable over two to three years.

Note 23 presents analysis of the carrying values of the Group's trade and other payables by currency and by timing of utilisation.

18. Provisions

Group	2016 $'000	2015 $'000
At 1 January	**1,297**	1,300
Additions	**-**	198
Acquisitions	**7,900**	-
Change in estimates	**(324)**	-
Disposals	**(2,421)**	-
Unwinding of timing discount	**224**	31
Exchange movement	**545**	(232)
At 31 December	**7,221**	1,297

The amount provided at 31 December 2016 represents the Group's share of decommissioning liabilities in respect of its Canadian wells. Acquisitions in the year relate to decommissioning liabilities in respect of the Rainbow Assets acquired in January 2016, see note 24. The amounts provided are expected to be paid in years 2018 to 2031.

Changes in estimates in the year relate to the abandonment liabilities for the Virgo area wells. Previously the Group had relied on internal estimates to calculate the potential decommissioning and abandonment liabilities for these wells. Following the Rainbow Asset acquisition, the Group revised the abandonment estimates used to match the calculations made by the AER in measuring operators' liabilities for abandonment in the province, resulting in a lower liability. The provisions are calculated using an inflation rate of 2% (2015: 2%), and a discount rate of 2.34% (2015: 2.33%). The net disposals in the year arise from the farm out agreement with H2P for a 25% partner interest in all of the Group's Canadian leases. For further information see note 4.

As part of the Group's entry into Alberta, Canada, the Group signed an introductory agreement with Grail Energy Canada Limited ("Grail"), a Canadian private company owned by certain current and former employees and contractors of the Group. The agreement provided for a payment to be made to Grail no earlier than 2016 based on a percentage of the value of certain Canadian based assets, taking into account the future net income and capital invested associated with those assets. The Directors believe that at this time there is no value for this potential future payment and therefore no provision has been made.

The carrying values of the Group's decommissioning provisions are denominated in Canadian Dollars. The Company had $nil, (2015: $nil) provisions at the year end.

19. Deferred Taxation

Group	Assets (Canada) 2016 $'000	Liabilities (Italy) 2016 $'000	Total 2016 $'000	Total liabilities 2015 $'000
Balance at start of year	**-**	**(2,066)**	**(2,066)**	(2,927)
Deferred tax liability arising on acquisition (see note 24)	(719)	-	**(719)**	(969)
Deferred tax movements recognised in statement of profit or loss	5,687	(129)	**5,558**	1,527
Exchange movement	-	58	**58**	303
Balance at end of year	**4,968**	**(2,137)**	**2,831**	(2,066)
Comprising				
Other temporary differences – fixed assets	(495)	(3,454)	**(3,949)**	(3,593)
Other temporary differences – provisions	1,805	-	**1,805**	-
Tax losses	3,658	1,317	**4,975**	1,527
Deferred tax recognised	**4,968**	**(2,137)**	**2,831**	(2,066)

On acquisition of a new Canadian business in January 2016, the Group recognised a deferred tax liability of $719,000 (2015: $nil), in respect of a bargain purchase, see note 24. The deferred tax liability on the bargain purchase was immediately offset by the recognition of a $719,000 (2015: $nil), deferred tax asset. At the year end, following the raising of new finance and the strong performance of the assets since acquisition, the Group's Canadian subsidiary recognised a deferred tax asset of $4,968,000 (2015: $nil), for net deductible temporary differences which, in the judgement of the Directors, are expected to be utilised to offset future taxable profits in Canada, see note 10. The deductible temporary differences recognised in the year include $3,620,000 tax losses from prior years (2015: $38,000), and $1,805,000 in respect of decommissioning provisions, the actual cost of which is deductible in the years in which it is incurred.

Tax losses in Canada (recognised of $14,631,000 in 2016; unrecognised of $10,587,000 in 2015) can be carried forward for up to 20 years. The Group's Canadian losses arose from 2013 onwards.

19. Deferred Taxation continued

Of the $3,949,000 other temporary differences, $3,454,000 (2015: $3,555,000) arises on the fair value adjustment for the assets acquired in Italy as part of the ATI acquisition and $495,000 (2015: $38,000) arises from assets acquired in Canada. These deferred tax adjustments arising on the fair value of assets acquired are not expected to be settled in cash and will unwind over time as new discoveries are made and, together with existing discoveries, are brought into production. Offsetting deferred tax assets for tax losses have been recognised in Italy of $1,317,000 (2015: $1,489,000). The Company had $nil (2015: $nil) recognised deferred tax liabilities and or assets at the year end.

Deferred tax assets have not been recognised in respect of those remaining losses and allowances that are not considered usable to offset taxable profits in future years as they may not be used to offset taxable profits elsewhere in the Group, and they may have arisen in subsidiaries that may be loss making for some time. The gross unrecognised temporary differences comprise:

	Group		Company	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Other temporary differences – fixed assets	**32,689**	34,588	**2,900**	3,733
Tax losses	**43,914**	57,829	**19,582**	22,033
Gross unrecognised temporary differences	**76,603**	92,417	**22,482**	25,766

Unrecognised tax losses for UK ($39,076,000; 2015: $43,066,000), Italy ($3,520,000; 2015: $3,831,000) and Australia ($1,318,000; 2015: $345,000) can be carried forward indefinitely.

20. Share Capital

Share issue

Following shareholder approval at a General Meeting on 16 December 2016, the Company raised new finance at a price of 3.5 pence per new ordinary share by means of a subscription and an open offer which closed in January 2017. The equity finance raised was for the purpose of funding the Group's investment programmes in production and development of oil and gas assets.

	2016	2015
Group and Company	**$'000**	$'000
Allotted, issued, called up and fully paid		
272,592,368 (2015: 148,545,351) ordinary shares of 1p each	**3,995**	2,454
95,365,660 (2015: 95,365,660) deferred shares of 4p each	**6,580**	6,580
	10,575	9,034

The ordinary shares above all hold the same voting rights and there are no restrictions on the distribution of dividends.

Deferred shares have no voting rights, no rights to receive dividends and have only very limited rights on a return of capital. The deferred shares have not been admitted to trading on AIM or listed on any other stock exchange and are not freely transferable.

Date	**Type**	**Shares**
01 January 2016		148,545,351
16 December 2016	Placing at 3.5 pence	124,047,017
31 December 2016		**272,592,368**

The Group's capital management policy is explained in note 23. On 10 January 2017, the Company announced the results of the open offer to shareholders and a further placing of shares. 42,100,000 ordinary shares of 1 pence each were issued at a price of 3.5 pence per share.

20. Share Capital

Warrants and options over the Company's ordinary shares:
Disclosures concerning contingent rights to the allotment of shares in respect of outstanding warrants and options held by the Board are given in the Report on Directors' Remuneration. Details of warrants and options issued, extended and exercised during the year, together with warrants and options outstanding at 31 December 2016 are as follows:

Issue date	Final exercise date	Exercise price pence	At 1 January 2016 '000s	New issues '000s	Exercised '000s	Lapsed or cancelled '000s	At 31 December 2016 '000s
04 January 2011	30 June 2016	108.88p	**30.0**	-	-	**(30.0)**	-
18 September 2012	15 July 2016	67.5p	**37.5**	-	-	**(37.5)**	-
18 September 2012	15 July 2017	67.5p	**37.5**	-	-	-	**37.5**
14 November 2012	15 July 2016	66.0p	**37.5**	-	-	**(37.5)**	-
14 November 2012	15 July 2017	66.0p	**37.5**	-	-	-	**37.5**
21 May 2013	30 June 2016	100.0p	**100.0**	-	-	**(100.0)**	-
21 May 2013	30 June 2017	100.0p	**100.0**	-	-	-	**100.0**
08 May 2015	08 May 2025	nil-cost	**666.7**	-	-	-	**666.7**
12 July 2016	11 July 2026	nil-cost	-	**7,455.7**	-	-	**7,455.7**
			1,046.7	**7,455.7**	-	**(205.0)**	**8,297.4**

The IFRS 2 fair values of awards granted under the Group's warrant and option schemes have been calculated using a variation of the binomial (Black Scholes) option pricing model that takes into account factors specific to share incentive plans such as the vesting periods, the expected dividend yield on the Company's shares and expected exercise of share warrants. The volatility used in the calculations is based on past share price movements and is estimated at 80% (2015: 55%). Risk free investment rates of 0.93% (2015: between 0.48% and 0.82%) have also been assumed in the calculations. The weighted average exercise price of all the warrants and options outstanding as at 31 December 2016 was 1.8p (2015: 31.8p). The weighted average remaining contractual life of all the warrants and options outstanding as at 31 December 2016 was nine years and three months.

There are no outstanding conditions attached to the exercise of the warrants remaining in issue at year end. Of the 666,700 nil-cost options issued on 8 May 2015, 488,000 have vested and can be exercised, 89,350 will vest on 8 May 2017 and 89,350 will vest on 8 May 2018. Of the 7,455,700 nil-cost options issued on 12 July 2016, 659,400 will vest on 12 July 2017, 659,400 will vest on 12 July 2018 and 6,136,900 will vest on July 2018. The nil-cost option holders must be employed by the Group on the vesting date for the options to vest.

21. Commitments

Operating leases
The Group's and Company's commitments for rental payments under non-cancellable operating leases payable as at 31 December 2016 are as follows:

Group	**2016 Other operating leases $'000**	**2016 Land and buildings $'000**	2015 Other operating leases $'000	2015 Land and buildings $'000
Payable				
Within one year	**37**	**11**	44	15
Between one and five years	**37**	**-**	87	-
After five years	**-**	**-**	-	-
	74	**11**	131	15

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21. Commitments continued

Company	2016 Other operating leases $'000	2016 Land and Buildings $'000	2015 Other operating leases $'000	2015 Land and buildings $'000
Payable				
Within one year	37	6	44	7
Between one and five years	37	-	87	-
After five years	-	-	-	-
	74	6	131	7

All leases are operating leases and the relevant annual rentals are charged to the statement of profit or loss on a straight line basis over the lease term. The Group and Company has one leased office in the UK. The Group leases an office in Canada. At 31 December 2016, the office was leased on a rolling one month agreement. Following the year end, the Group agreed a new lease for its Canadian office for a term of three years starting in April 2017 at an annual rent of $68,000 Canadian Dollars ($51,000). The Group's UK office lease is subject to one month's notice and the Group's offices in Rome and Australia are rented from month to month. General renewal clauses exist on all leases.

22. Related Party Transactions

Group
The Directors are considered to represent the Group's key management and their remuneration is disclosed in note 6. Other than its Directors, the Group has one related party, H2P. Following the agreement of shareholders at the General Meeting held on 16 December 2016, H2P became a 29.9% shareholder in the Company and farmed into the Group's Canadian licences taking a 25% partnership interest. Under the terms of the agreements, H2P nominated Mr. C J Airlie to be a Non-executive Director of the Company. Also under the terms of the agreements with H2P, H2P will farm into the Australian and southern Adriatic licences, once approved by the national government ministries. Between 16 December 2016 and 31 December 2016 there were no transactions between the Group and H2P.

No Director or member of senior management had, during or at the end of the year, a material interest in any other contract which was significant in relation to the Group's business, except in respect of personal service agreements and warrants.

23. Financial Instruments

Financial instruments – Risk Management

The Group and Company are exposed through their operations to the following financial risks:
- Credit risk
- Cash flow interest rate risk
- Foreign exchange risk
- Liquidity risk
- Price risk

This note describes the Group's and Company's objectives, policies and processes for managing those risks and the methods used to measure them. There have been no substantive changes in the Group's and Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments
The principal financial instruments used by the Group and Company, from which financial instrument risk can arise are as follows:

- Loans and receivables
- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

Notes to the Accounts
for the year ended 31 December 2016

23. Financial Instruments

General objectives, policies and processes
The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. Further details regarding these policies are set out below.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or a counter party to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk from credit sales and from cash and cash equivalents via deposits with banks and financial institutions. It is Group policy, implemented locally, to assess the credit risk of new customers and seek external credit ratings where applicable and when available. Potential customers that fail to meet the Group's benchmark creditworthiness may transact with the business on a prepayment basis. For banks and financial institutions, only independently rated parties with an acceptable credit rating are accepted. The Group does not currently enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated.

Quantitative disclosures of the credit risk exposure in relation to trade and other receivables are disclosed in note 16.

Cash flow interest rate risk
The Group is exposed to cash flow interest rate risk from their deposits of cash and cash equivalents with banks. The Group and Company are not at present exposed to cash flow interest rate risk on borrowings as it only has fixed interest debt at a rate of 0.5% per annum from the Italian Government.

Interest rates on financial assets and liabilities

The Group's financial assets consist of cash and cash equivalents, trade and other receivables. The interest rate profile at 31 December of these cash and cash equivalents, trade and other receivables was as follows:

Group	**2016**			2015		
	Financial assets on which floating rate interest is earned $'000	**Financial assets on which no Interest is earned $'000**	**Total $'000**	Financial assets on which floating rate interest is earned $'000	Financial assets on which no Interest is earned $'000	Total $'000
US Dollar	**3,678**	**276**	**3,954**	237	15	252
Canadian Dollar	**2,446**	**449**	**2,895**	748	474	1,222
UK Sterling	**384**	**39**	**423**	1,302	129	1,431
Euro	**54**	**688**	**742**	75	40	115
Australian Dollar	**22**	**1**	**23**	54	1	55
Total	**6,584**	**1,453**	**8,037**	2,416	659	3,075

The financial assets for each currency largely comprise cash on call accounts and placed on money markets on call and short term debtors. In addition the Company charges interest to subsidiaries of the Group on intercompany current account loans in certain circumstances. The Group earned interest on its interest bearing financial assets at rates between 0% and 1.35% (2015: 0% and 0.67%) during the year. All financial assets on which no interest is earned are considered immediately available to turn into cash on demand. If average interest rates, approximately 1.35% in 2016, had been 100% higher, i.e. 2.70%, the Group's finance income of $14,000 would have been $28,000. Had average interest rates in 2016 been 50% lower, the Group's finance income would have been $7,000 lower. It is considered that there have been no significant changes in cash flow interest rate risk at the reporting date compared to the previous year end and that therefore this risk has had no material impact on earnings or shareholders' equity.

Foreign exchange risk
Foreign exchange risk arises because the Group has operations whose functional currency is different to the Group's reporting currency, resulting in gains and losses on retranslation into US Dollars. It is the Group's policy to ensure that individual Group entities enter into local transactions in their functional currency wherever possible and that only surplus funds over and above working capital requirements should be transferred to the treasury of the Parent Company. The Group and Company considers this policy minimises any unnecessary foreign exchange exposure.

23. Financial Instruments

The following table discloses the exchange rates of the major currencies utilised by the Group and Company:

	UK Sterling	Euro	Canadian Dollar	Australian Dollar
Foreign currency units to $1 US Dollar (rounded to two decimal places)				
Average for 2016	**0.74**	**0.90**	**1.32**	**1.34**
At 31 December 2016	**0.81**	**0.95**	**1.34**	**1.38**
Average for 2015	0.65	0.90	1.28	1.33
At 31 December 2015	0.68	0.92	1.38	1.37

Currency exposures
The monetary assets and liabilities of the Group and Company that are not denominated in US Dollars are exposed to currency fluctuations and are shown below at their US Dollar equivalent of local currency balances.

	UK Sterling $'000	Euro $'000	Canadian Dollar $'000	Australian Dollar $'000	Total $'000
US Dollar equivalent of exposed net monetary assets and liabilities					
Group					
At 31 December 2016	**384**	**53**	**2,446**	**22**	**2,905**
At 31 December 2015	1,302	75	748	54	2,179

During the year, the US Dollar weakened in value against the Canadian Dollar (2.7%), strengthened against the Euro (3.1%) and strengthened against UK Sterling (19.2%), resulting in an overall foreign exchange loss for the year of $1,000, and exchange differences on translation of foreign operations of $50,000 (loss).

- Had the US Dollar risen in value against the Canadian Dollar by 5% the Group's overall foreign exchange loss would have been $1,999,000 higher. Had the US Dollar fallen in value against the Canadian Dollar by 5% the Group's overall foreign exchange loss would have been $442,000 lower.
- Had the US Dollar risen in value against the Euro by 5% the Group's overall foreign exchange loss would have been $376,000 higher. Had the US Dollar fallen in value against the Euro by 5% the Group's overall foreign exchange loss would have been $2,068,000 lower.
- Had the US Dollar risen in value against UK Sterling by 5% the Group's overall foreign exchange loss would have been $5,000 lower. Had the US Dollar fallen in value against UK Sterling by 5% the Group's overall foreign exchange loss would have been 9,000 lower.

Liquidity risk
Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting their financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain readily available cash balances (or agreed facilities) to meet expected requirements. The Group currently has no long term borrowings, other than the loans from the Italian government forwarded under the scheme to encourage oil and gas exploration in Italy.

Price risk
Oil revenue is subject to energy market price risk. Had average oil prices in 2016 been 10% higher, the Group's oil revenue of $3,468,000 would have been $346,800 higher. Had average oil prices in 2016 been 10% lower, the Group's oil revenue would have been $346,800 lower. Given current production levels it is currently not considered appropriate for the Group and Company to enter into any hedging activities or trade in any financial instruments, such as derivatives. This strategy will be subject to continued review through 2017 and beyond given the Group's current cash flow.

Notes to the Accounts
for the year ended 31 December 2016

23. Financial Instruments

Capital management policies
The Group considers its capital to comprise ordinary share capital, share premium, distributable reserves and accumulated retained earnings. In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders, principally though capital growth. In order to achieve and seek to maximise this return objective, the Group may seek to maintain a gearing ratio that balances risks and returns at an acceptable level while also maintaining a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues, or increases or reductions in debt, the Group considers not only its short term position but also its medium and longer term operational and strategic objectives.

There have been no other significant changes to the Group's capital management objectives, policies and processes during the year nor has there been any change in what the Group considers to be its capital.

Financial liabilities
The Group's financial liabilities consist of trade and other payables. The interest rate profile at 31 December of these liabilities was as follows:

	2016			2015		
	Financial liabilities on which interest is paid $'000	**Financial liabilities on which no interest is paid $'000**	**Total $'000**	Financial liabilities on which interest is paid $'000	Financial liabilities on which no interest is paid $'000	Total $'000
Euro	**586**	**58**	**644**	908	63	971
UK Sterling	**-**	**304**	**304**	-	263	263
US Dollar	**-**	**255**	**255**	-	7	7
Canadian Dollar	**-**	**1,706**	**1,706**	-	286	286
Australian Dollar	**-**	**8**	**8**			
Total	**586**	**2,331**	**2,917**	908	63	971

The Group's short term creditors are considered payable on demand.

24. Canadian acquisition

On 21 January 2016, the AER transferred a number of interests (largely 100% interests: interests between 100% and 0.83%), in Rainbow Asset leases in Alberta to the Group's Canadian subsidiary, Ouro Preto Resources Inc. ("OP") following the deposit by OP with the AER of approximately $1.2 million in respect of decommissioning liabilities. The payment of an abandonment deposit to the AER was a final step in the regulatory approval process for the acquisition of the leases following the pre-payment of the cash consideration to the vendor, announced on 15 December 2015. On the transfer of the working interests the transaction closed. The acquisition of the working interests in the Rainbow Assets 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 were either currently in production or were believed by the Directors to have the potential of being initially brought back into production. The remaining wells are either suspended or already abandoned and are being reviewed for future production potential. In addition to the wells the assets acquired include two processing facilities and nine smaller facilities.

The assets acquired are an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return. In accordance with IFRS 3 "Business combinations", the assets acquired were valued at their fair value using an internal financial model based on information from the Group's due diligence and a reserves report by a firm of independent reservoir engineers dated 1 January 2015, adjusted for production in the intervening period. A post tax discount rate of 10% was used in the fair value calculation. This represents a Level 3 valuation in the IFRS 13 fair value hierarchy as it is based on certain judgements and estimates made by the Directors which are not based on observable market data (see "Critical accounting judgements" in note 1). The Group calculated that the fair value of the assets and liabilities acquired exceeded the cost of purchasing the assets by $2,730,000, the bargain consideration. It is likely that the bargain consideration arose because the vendor, who is a large group, had decided to sell a non-core business for strategic reasons and after trying to dispose of the business for a number of years, was minded to accept an offer lower than the fair value of the business in order to divest itself of the risks and responsibilities of ownership. On acquisition the assets have been included at their fair value in plant, property and equipment and the value of the bargain consideration has been credited to the income statement as part of other operating income. A deferred tax liability of $719,000 was recognised and offset against the bargain consideration. The liabilities include the provisions for future abandonment of the wells and facilities.

24. Canadian acquisition continued

Consideration:

	21 January 2016 $'000
Cash	**382**

The Canadian Dollar consideration was settled for CAD$536,000 which equates to US$382,000 at the prevailing exchange rate of $1.4 Canadian Dollars to $1 US Dollar. The consideration paid included CAD$250,000 for oil and gas assets, CAD$210,000 costs in respect of abandoning an oil well considered to be part of the transaction, but which could not be transferred to the Group, and a CAD$76,000 adjustment for differing economic and legal cut off dates for the transaction.

Identifiable assets acquired and liabilities assumed:

	21 January 2016 Recognised values on acquisition $'000
Property, plant and equipment – oil & gas assets	10,955
Trade and other receivables - prepayments	57
Provisions	(7,900)
Deferred tax liability	(719)
Bargain purchase credited to the income statement	(2,011)
	382

No significant acquisition related costs have been incurred.

The revenue generated and expenses incurred by this operation since the date of acquisition (21 January 2016) were $3,324,000 and $4,055,000 respectively. Of the $4,055,000 expenses, $2,908,000 relates to production costs, $340,000 relates to administration and management time recharged by Northern Petroleum Plc, $584,000 relates to depletion and amortisation of plant property and equipment and $223,000 relates to finance costs for the unwinding of discount on decommissioning provisions. Cash outflow from the operation post acquisition was $1,262,000 and 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 2016 would have been $64,000 higher and the consolidated costs for the year would have been $121,000 higher.

Following the approval by shareholders at a General Meeting on 16 December 2016, the Group disposed of 25% of its interests in all its Canadian leases and other Canadian oil and gas assets, including the leases and assets acquired on 21 January 2016, to H2P at a loss of $160,000 (see note 4).

25. Post Balance Sheet Events

Between the balance sheet date of 31 December 2016 and the date that the 2016 financial statements have been signed, the following developments have been announced which have a material impact on, or the understanding of, these financial statements:

On 10 January 2017, the Group announced the results of the open offer to shareholders made in 2016 and a further placing of shares. 42,100,000 ordinary shares of 1 pence each were issued at a price of 3.5 pence per share.

On 7 March 2017, the Group announced the acquisition (75%), alongside H2P (25%) of six oil wells in the Rainbow area of Alberta, Canada. The wells acquired are nearby to the Group's existing Rainbow Assets. In consideration for the wells the Group has assumed the associated abandonment liability of $1.1 million.

Unaudited Statement of Net Commercial Oil & Gas Reserve Quantities – Proven and Probable Reserves

At 31 December 2016

Volumes – Group

	Reserves mmboe
At 1 January 2016	**0.29**
Changes during the period:	
Acquisitions	1.10
Revisions of previous estimates	0.60
Disposals	(0.47)
Production	(0.10)
At 31 December 2016	**1.42**

Notes

1. The Reserve estimates shown in this report are based upon the joint reserve and resource definitions of the Society of Petroleum Engineers, the World Petroleum Congress, and the American Association of Petroleum Geologists. The classification of reserves has been done in accordance with Canadian Oil and Gas Evaluation Handbook (COGEH) guidelines as referenced in (Canadian) National Instrument 51-101 (NI-51-101).

2. Canadian proven and probable reserves are the most recent estimates as determined during the third quarter of 2016 in an independent review by McDaniel & Associates Consultants Ltd. of Calgary, Alberta, Canada, adjusted for subsequent production.

Glossary

2D
Two dimensional
3D
Three dimensional
2P
Proven plus probable reserves
$
US Dollar
AER
Alberta Energy Regulator
AGM
Annual General Meeting
AIM
The Alternative Investment Market of the London Stock Exchange plc
boe (barrels of oil equivalent)
A term used to summarise the amount of energy that is equivalent to the amount of energy found in a barrel of crude oil.
boepd
Barrel(s) of oil equivalent per day
CAD$
Canadian dollar
CEO
Chief Executive Officer
the Code
UK Corporate Governance Code
E&E
Exploration and Evaluation
EIA
Environmental Impact Assessment
EU
European Union
FCA
Financial Conduct Authority
GAAP
Generally Accepted Accounting Practice
H2P
High Power Petroleum LLC
HSE
Health, Safety and the Environment
IAS
International Accounting Standards
IASB
International Accounting Standards Board
IFRIC
International Financial Reporting Interpretations Committee
IFRS
International Financial Reporting Standards
Intangible assets
Oil and gas assets at the exploration and evaluation stage and IT systems
ISIN
International Securities Identification Number
ISO 14001
International Standards Organisation Environmental Management Standard
km
Kilometre
KPI
Key Performance Indicator
mmboe
Million barrels of oil equivalent
Northern or the Group
The Company and its subsidiaries, Northern Petroleum Plc
OHSAS 18001
British Standard for Occupational Health and Safety Management Systems
Parent Company
Northern Petroleum Plc, the ultimate parent company of the Group
Probable
Probable reserves are those unproven reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable in this context and when probabilistic methods are used, there should be at least 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves
Prospect
Potential or actual drilling target that is defined by seismic data and / or log data with a sufficient level of detail for the evaluation of economic viability
Proven
Proven reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions
Rainbow Assets
The wells, facilities, leases and pipelines acquired by the Group in January 2016 in the Rainbow area of northwest Alberta, Canada
Reserves
Estimated remaining quantities of oil and natural gas and related substances anticipated to be technically and economically recoverable from known accumulations, as of a given date
Shell Italia
Shell Italia E&P S.p.A
VCP
Value Creation Plan
Virgo
The wells, facilities and leases owned by the Group in the Virgo area of north west Alberta, Canada
WTI
West Texas Intermediate – a grade of crude oil used as a benchmark in oil pricing

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
Senior Non-executive Director

C J Airlie
Non-executive Director

Company Secretary

W J Anderson

Registered office

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

Telephone: +44(0)20 7469 2900
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
United Kingdom

Regional office, Canada
Ouro Preto Resources Inc
900, 600 – 6th Ave SW
Calgary, Alberta T2P 0S5
Canada

Regional office, Italy
Viale di Trastevere 249
00153
Rome
Italy

Regional office, Australia
Ouro Preto Resources Pty Ltd
PO Box 394
Burleigh, Heads 4220
Australia

Independent auditor

Deloitte LLP
2 New Street Square
London EC4A 3BZ

Registrars

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

Bankers

HSBC Bank Plc
8 Canada Square
London E14 5GL

Lloyds Banking Group
10 Gresham Street
London EC2V 7AE

UniCredit Banca
Piazza Cavour B
Roma, Italy

ATB Financial
2202 20 Street
Nanton, Alberta T0L 1R0

Nominated adviser and brokers

Stockdale Securities Limited
Beaufort House
15 St. Botolph Street
London EC3A 7BB

FirstEnergy Capital LLP
85 London Wall
London EC2M 7AD

FTI Consulting Inc
200 Aldersgate Street
London EC1A 4HD

Solicitors

Gordons Partnership LLP
22 Great James Street
London WC1N 3ES

Licence Table

	Type	Interest	Operator
Canada			
Onshore			
North West Alberta	234 Leases	varied	198 Northern
Note: H2P are joint venture partners with a 25% interest in all Canadian assets			
Italy			
Onshore			
Cascina Alberto	Permit	20%	Shell Italia
Offshore			
Southern Adriatic			
F.R39.NP	Permit	100%	Northern
F.R40.NP	Permit	100%	Northern
d149D.R-.NP	Application	100%	Northern
d60F.R-.NP	Application	100%	Northern
d61F.R-.NP	Application	100%	Northern
d65F.R-.NP	Application	100%	Northern
d66F.R-.NP	Application	100%	Northern
Note: H2P will be joint venture partners with a 10% interest following regulatory approval			
Sicily Channel			
C.R.146.NP	Permit	100%	Northern
C.R149.NP	Permit	100%	Northern
d29G.R-.NP	Application	50%	Northern
d30G.R-.NP	Application	100%	Northern
Australia			
Onshore			
PEL629	Licence	100%	Northern
Note: H2P will be joint venture partners with a 25% interest following regulatory approval			