

**PENNPETRO ENERGY PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2017**

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|--|--|--|---|---|--|
| <b>Directors</b>   | Keith Graeme Edelman (Non-Executive Chairman)<br>Olof Nils Anders Rapp (Senior Non-Executive Director)<br>Thomas Martin Evans (Executive Director)<br>Philip Tudor Nash (Non-Executive and Finance Director)   |  |   |   |  |
| <b>Secretary</b>   | Arty Maharaj, FHF Corporate Finance Limited  |  |   |   |  |
| <b>Technical Adviser</b>   | Eur. Ing. Dr. Michael Smith, FIMMM, C.Eng.   |  |   |   |  |
| <b>Registered Office</b>   | 1/88 Whitfield Street<br>London<br>W1T 4EZ   |  |   |   |  |
| <b>Legal Advisers</b>  | <table><tr><td><b>UK Legal Advisers</b><br/>Birketts LLP<br/>22 Station Road,<br/>Cambridge<br/>Cambridgeshire, CB1 2JD UK.</td><td><b>US Legal Adviser</b><br/>Phelps Dunbar LLP.<br/>365 Canal Street<br/>New Orleans,<br/>Louisiana, LA 70130 USA.</td></tr><tr><td>Fladgate LLP<br/>16 Great Queen Street,<br/>London, WC2B 5DG, UK.</td><td>One Allen Centre<br/>500 Dallas Street,<br/>Suite 1300<br/>Houston, TX 7702, USA.</td></tr></table> | <b>UK Legal Advisers</b><br>Birketts LLP<br>22 Station Road,<br>Cambridge<br>Cambridgeshire, CB1 2JD UK. | <b>US Legal Adviser</b><br>Phelps Dunbar LLP.<br>365 Canal Street<br>New Orleans,<br>Louisiana, LA 70130 USA. | Fladgate LLP<br>16 Great Queen Street,<br>London, WC2B 5DG, UK. | One Allen Centre<br>500 Dallas Street,<br>Suite 1300<br>Houston, TX 7702, USA. |
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| <b>Independent Auditor</b>   | PKF Littlejohn LLP<br>Statutory Auditor<br>1 Westferry Circus<br>Canary Wharf<br>London<br>E14 4HD   |  |   |   |  |
| <b>Registrars</b>  | Computershare Investor Services Plc,<br>The Pavilions,<br>Bridgewater Road,<br>Bristol,<br>BS13 8AE  |  |   |   |  |
| <b>Registered Number</b>   | 10166359   |  |   |   |  |

Chairman's Statement

I am pleased to present the first set of annual results for Pennpetro energy plc ("Pennpetro") since we listed on the Main Board of the London Stock Exchange ("LSE") in December 2017.

During the period under review, the Company successfully acquired Nobel Petroleum UK Limited ("Nobel UK") and its US-based subsidiary companies, Nobel Petroleum US, Inc. and Nobel Petroleum LLC, ahead of listing the Company on the LSE. This acquisition resulted in Pennpetro becoming the holding company for an oil and gas development Group, with assets in Texas, US.

Pennpetro acquired Nobel UK in May 2017 with the issue of 45,00,000 Ordinary shares and a mandatory convertible note to the Seller, which is convertible into 19,000,000 Ordinary shares. The shares were issued at a price of 25 pence, which represented the value of the underlying oil assets that had been acquired by Pennpetro as a result of the acquisition.

The acquisition of Nobel UK in May 2017 valued the Group at that time at £16 million and Pennpetro later went on to list on the LSE, at the same valuation, on 21 December 2017.

Nobel UK's US-based subsidiaries own a portfolio of leasehold petroleum mineral interests centred on the City of Gonzales, in southeast Texas, comprising the undeveloped central portion of the Gonzales Oil Field. The petroleum assets include approximately 1,000 leases covering 2,500 acres of land and contain proven oil condensates. The Competent Persons Report ("CPR") prepared in advance of the acquisition estimated that, as a result of the acquisition, Pennpetro Group would have a Working Interest in the portfolio of petroleum mineral leases of 2,000 MBL of oil and 1,000 MMcf of gas.

The most recent CPR prepared in December 2017, estimates that the Group's undiscounted Net Revenue Interest in the Gonzales petroleum leases amounts to \$62 million.

The acquisition of Noble Petroleum UK Limited by Pennpetro fell outside the Scope of IFRS 3 ("Business Combinations"). As a result, the Consolidated Financial Statements have been treated as being a continuation of the Consolidated Financial Statements of Nobel UK, with Pennpetro being treated as the acquired entity for accounting purposes. Further acquisitions are expected to be accounted for within the Scope of IFRS 3.

Moving on to our oil assets, our US-operating teams began drilling the first horizontal well during the year and aim to complete the well and commence production in the summer of 2018.

The year under review has been one of real progress and the Company is now well placed to capitalise on the recovery in sentiment within the US and global petroleum sectors.

We remain confident in our petroleum assets, our US operations and the Board, to continue to build upon what has been a very successful and busy first year for the Group.

**Keith Edelman**

Non-Executive Director, Chairman

30 April 2018

### Executive Director's Statement

Pennpetro's intention is to become an active independent North American development production company.

The key elements of Pennpetro's strategy for achieving this goal are:

- The creation of value through production development success and operational strengths, commencing with the Group's COGLA assets.
- Focusing on commercialisation and monetisation of oil and gas discoveries, and potentially utilising cash flows from initial projects to fund the acquisition or development of future projects.
- Active asset portfolio management.
- Positioning the Company as a competent partner of choice to maximise opportunities and value throughout the E&P lifecycle.

Our focus during 2017 was to develop our proven reserve base at our licences in Gonzalez.

According to the Group's Competent Person's Report ("CPR"), prepared in December 2017, Pennpetro has a working interest in 2,000 Mbbbl of oil and 1,000 MMcf of gas across its Gonzalez leases.

The low oil price environment since mid-2014 presented the opportunity to acquire leases in our core areas of focus, most notably the prolific Austin Chalk and Eagleford Shale in South Texas. To this, we have been able to add additional reserves from the Buda Formation from the drilling of an initial horizontal well, which we are in the process of completing.

These highly active plays are well suited to thrive in today's stronger oil price environment. The wells we are drilling and plan to drill are economic at oil prices sub US\$30/bbl; record production rates have been reported as the horizontal laterals are extended and the amount of pay in each well has increased; drilling and completion costs have been significantly reduced; and initial decline rates during the first 12-18 months of production are lower than those in other US plays. Over the last two years, we have taken advantage of depressed market conditions to increase our exposure to these areas.

West Texas Intermediate ("WTI") averaged US\$50.88/bbl during 2017, more than 17% higher than US\$43.33/bbl averaged during 2016. The value of WTI as at 27 April 2018 was US\$68 (source: Bloomberg Markets).

### **Operations**

In terms of our operations, our focus has been on drilling our initial horizontal well, which was spudded in June. The drilling unit was released in August 2017, having successfully encountered good oil shows with a lateral extension to some 10,300 feet. However, the onset of Hurricane Harvey later that month led to severe flooding in South Texas, prohibiting further operations and delaying initiation of our completion operations until mid-December. We have now begun those operations and are in the process of pump testing to remove water from the reservoirs, while at the same time recovering oil as the oil-cut increases.

Our operator is preparing to file formal completion certificates with the Texas Railroad Commission confirming that the COG#1-H well is being completed as a producer, albeit full testing is ongoing.

Financially, the Company used 2017 to lay the foundations for future revenue generation.

A sustained rally in the oil price was triggered in Q4 2016 by the agreement between members and non-members of OPEC to cut production. In this stronger oil price environment, Pennpetro has emerged from the downturn as a low-cost, asset-backed US onshore oil and gas business. Subject to oil prices, market conditions and sentiment, I remain confident that we can deliver our strategy by acquiring leases in active and producing US onshore plays and proving up the reserves by drilling new wells.

This platform is one that has, at its core, the active management of all types of risk associated with the oil and gas industry. Broadly speaking development risk is managed by focusing on proven formations; execution risk is managed by participating in drilling activities alongside established industry partners and operators such as our joint venture partners, Av-Tech Oil & Gas, LLC, who have an extensive history in South Texas operations, as well as our operations offsetting those of major industry players, such as EOG Resources, Inc., a \$67.5 billion goliath; individual well risk is managed by building a diversified portfolio of leases and wells and limiting the amount of interest the Group holds in any one well; meanwhile oil price risk is managed by focusing on areas that require relatively low oil prices to breakeven and ensuring our cost base, capital commitments and financing costs remain low, manageable and flexible.

Pennpetro's Board currently comprises four Directors, who collectively have extensive international experience and a proven track record in investment, corporate finance and business acquisition, operation and development and are well placed to implement the Company's business objectives and strategy.

In February 2018, we were pleased to appoint Dr. Michael Smith as a technical consultant to the Company. Graduating from University of Durham in 1965 with a degree in Geology (First Class Honours), and thereafter taking a PhD at University of Edinburgh (Application of Probability and Systems Theory – direct application to the risk and probability aspects of oil and gas reservoir development). Michael started his career as a consultant to the British National Oil Corporation in 1975, before moving to become VP Exploration for American Barrick Resources and thereafter embarking upon on a worldwide career within the resources sector. Michael has numerous years of experience as an exploration and production geologist and geoscientist, particularly exploring and developing onshore US fields in Oklahoma and South Texas.

We believe the Company's Board and US management team is strong in terms of having the right mix of industry expertise covering all key areas of the business, including lease acquisition, geology, engineering, and finance.

## **Outlook**

In line with our strategy, all our operations are in highly active plays where the economics of drilling and producing remain attractive at sub-US\$30 oil prices. This highlights the success we have had in taking advantage of the prior industry downturn to accelerate the positioning of our South Texas leasehold position in favour of the Austin Chalk and Eagleford Shale. With a strategic foothold in these prolific, low-cost plays established and a proven management team in place, we will look to further expand our position in this US onshore sweet spot, as and when management considers it most advantageous to do so.

For 2018, our main objectives are to commence full production of the COG#1-H well, acquire additional land leases and to carry out a 3-D seismic survey of our land interests. I look forward to providing updates on our progress in the year ahead.

Finally, I would like to thank the Board, management team and all our advisers for their hard work over the last twelve months and also to our shareholders for their continued support.

**Thomas Evans**  
Executive Director

30 April 2018

## Operations Report

### Summary

Nobel Petroleum USA, Inc., has operational teams on the ground working from its offices in the City of Gonzales. During the period, one new horizontal well in which the Group has an interest commenced completion activity. The Group is planning to initiate an encompassing 3D seismic survey in 2018 with Dawson Geophysical Company to complement its comprehensive well logs geological analysis, together with an enhanced programme of additional new petroleum leasing contiguous to the area, with proposed planning to provide a further seven permitted drilling locations by year end.

### **SOUTH TEXAS**

The Company, through its indirect wholly-owned subsidiary, Nobel Petroleum USA, Inc., holds interests in acreage within active oil and gas plays within the County of Gonzales, State of Texas: The Austin Chalk, and Eagleford Shale horizontal development and vertical development of the Buda formation. Nobel Petroleum USA, Inc. has observed an increase in the value of its interests within its project acreage, due in part to higher energy price parameters and increased consolidation of its acreage positions.

#### **Austin Chalk**

The play covers an extensive area with over a million acres yet to be developed and runs all the way from the Pearsale Field south of Gonzales to the giant Giddings Oil Field, the largest oilfield found in Texas in the past 50 years to the north of Gonzales, and further north onto the North Rayou Jack Field. The Austin Chalk overlays the oil rich Eagleford Shale, with both formations capable of interacting with each other, and is a low permeability fractured reservoir that has been the target for horizontal drilling since the mid-1980s and consists of interbedded chinks, volcanic ash and marls. It is located at drill depths from 7,000 to 8,000 feet. It can be a liquids-rich play, yielding high volumes of oil and condensate. Initial production rates can range over 1,000 bopd with ultimate reserves exceeding 500 MBO per well.

- EOG Resources operating in Karnes County immediately to the southwest of Gonzales, completed five wells in the first quarter 2017, with an average per well production of 2,605 boed (1,895 bopd, 360 bpd of NGLs and 2.1 MMcfd of natural gas).
- In second quarter of 2017, EOG completed 9 wells in Karnes County with initial production rates of 2,150 bopd, 355 NGLs and 2.1 MMcfd of natural gas.

#### **Eagleford Shale**

This play is classified as a petroleum system in that it is a self-sourced reservoir with seals. Migration of Eagleford hydrocarbons was primarily along bedding planes during the expulsion phase. Absent of traps, hydrocarbons migrated up-dip or north where vertical natural fractures were encountered. These natural fractures were associated with the regional fault trends. Here, the hydrocarbons migrated into the extensively fractured Austin Chalk. Initial production rates with laterals exceed 1,000 bopd. Listed below are examples of recent wells drilled by EOG.

- In Gonzales County, EOG Resources completed a four-well pattern, the Olympic A 1H-D 4H, with initial production rates per well of 2,910 boed or 2,160 bopd, 380 bpd of NGLs and 2.2 MMcfd of natural gas.
- In Dewitt County to the immediate south of Gonzales, EOG completed a five-well pattern, the Dio Unit 11H-15H with initial production rates per well of 2,135 bopd, 355 bpd of NGLs and 2.1 MMcfd of natural gas.
- In the fourth quarter 2017, EOG completed a further four-well package in De Witt County, the Hendrix 8H-10H and Hendrix 12H with average production of 2,545 bopd, 420 bpd of NGLs and 2.4 MMcfd of natural gas.

**Buda Formation**

The Buda is a biomicritic limestone lying below the Eagleford Shale and above the Del Rio Shale. There has been an increase in the focus on, and the development of, the Buda formation by a number of US operators in South Texas, with a number of horizontal wells having been completed.

While the Buda has always been acknowledged as a resource play in South Texas, it sits at the bottom of our drilling prognosis, as it can be drilled as a separate vertical completion and added to our overall horizontal programme. Furthermore, its unit spacing can be brought significantly down to 40 acres, thereby fulfilling a separate in-fill operation alongside our horizontal drilling focus.

**Thomas Evans**  
Executive Director

30 April 2018

**Financial Report**

The financial results for the year ended 31 December 2017 show a loss after tax of \$153,269 (2016: (\$17,838)).

As the Company is yet to commence production, it generated no revenue during the period.

The costs incurred by the Group were primarily legal and professional fees and included the costs associated with listing the Company on the LSE.

External loans were used in the reporting period to enable the Group to acquire leases in Gonzales, Texas and to fund development of the first horizontal well.

The Group's borrowings at 31 December 2017 were \$6,021,575 (2016: \$1,185,000).

The Group also had cash balances at 31 December 2017 of \$22,073 (2016: \$20,904) and short term investments of \$2,073,299 (2016: \$NIL). In addition, the Group had a receivables balance of \$1,537,448 (2016: \$28,112).

Land lease costs of \$1,219,215 (2016: \$1,158,199) were capitalised in Property, Plant and Equipment and Drilling-related expenditure of \$1,908,751 (2016: \$Nil) was capitalised in intangible assets.

The Group expects to generate revenue in 2018 from its first horizontal well and intends to use its cash balances and cashflow from oil production to fund additional development of its lease interests in Gonzales.

**Philip Nash**  
Finance Director

30 April 2018

## **Strategic Report**

The Directors of the Company and its subsidiaries (which together comprise “the Group”) present their Strategic Report on the Group for the year ended 31 December 2017.

### **Principal Activities**

On 17 May 2017, the Company successfully completed the acquisition of Nobel Petroleum UK Limited which resulted in Pennpetro becoming the holding company for an oil and gas development Group, with assets in Texas, US.

The principal activity of the Group is onshore oil and gas exploration and production in the United States of America. Pennpetro Energy Plc acts as a holding company and provides direction and other services to its subsidiary.

The Company’s UK wholly-owned subsidiary is Nobel Petroleum UK Limited, which holds 100% of the US operational subsidiary Nobel Petroleum USA, Inc. (“Nobel USA”), an independent oil and gas production company based in the City of Gonzales, Gonzales County, Texas, USA. Nobel USA took over the activities of Nobel Petroleum LLC, the Company’s other subsidiary entity in December 2017 pursuant to a seamless internal re-organisation of operational activities and taxation advice. Nobel USA’s core area of business is in the Austin Chalk and Eagleford Shale oil and gas horizontal formations together with the lower oil and gas reservoir, the Buda Formation in South Texas, United States.

The review of business and future developments is included in the Executive Directors’ Statement and the Operations Report.

### **Organisation Review**

The Board is responsible for providing strategic direction for the Group. This incorporates setting out objectives, management policies and performance criteria. The Board assesses its performance against these on a monthly basis.

Composition of the Board at 31 December 2017 was one Executive Director and three Non-Executive Directors. The Board believes that the present composition provides an appropriate mix to conduct the Group’s affairs.

### **Strategic Approach**

The Board’s strategic intent is to maximise shareholder value through the continuing investment into new wells and leases in proven US onshore formations and participating alongside established operators in multiple wells, while further reducing costs, where applicable.

The Company provides shareholders with exposure to the high growth associated with the producing oil and gas sector. This is achieved with a low overhead base.

### **Key Performance Indicators**

In its first year of operations, the Board monitored the overall performance of the Group by reference to certain key milestones. These milestones were the listing of Pennpetro on the LSE and commencing drilling of the first well. Both milestones were achieved during the year under review.

Participation in well drilling programmes are monitored on an individual project basis in terms of revenue and cost per barrel of oil or Mcf (one thousand cubic feet) of gas, together with the anticipated payback period on each project.

## Risks and Uncertainties

The Group's activities expose it to a variety of risks and uncertainties.

### ***Market risk***

The Group operates in an international market for hydrocarbons and is exposed to risk arising from variations in the demand for and price of the hydrocarbons. Oil and gas prices historically have fluctuated widely and are affected by numerous factors over which the Group does not have any control, including world production levels, international economic trends, currency exchange fluctuations, inflation, speculative activity, consumption patterns and global or regional political events.

### ***Non-operator risk***

On non-operated interests, the Group, in most instances, will depend on operators to initiate and supervise the drilling and operation of such wells. As such the Group cannot always accurately predict the timing of the cash flows associated with the drilling of these wells. If the Group is unable or unwilling to comply with its payment obligations, it would seek to negotiate a farm-out with some sort of back-in upon pay-out or sell down a portion of its leasehold interests and participate with a smaller interest. This could reduce the Group's future revenues and earnings.

### ***Oil and gas exploration and production risks***

The Group is primarily a non-operator working interest owner and is reliant on the operator for managing all aspects of its production activities in its non-operated interests. Although it does not engage in exploration activities, per se, it might engage in some limited exploration activity if it was in an area offsetting producing assets and the Company decided such activity was worthwhile on a minimised risk basis to enhance its lease profile. There are significant risks and hazards inherent in the exploration and production of oil and gas, including environmental hazards, industrial incidents, labour disputes, fire, drought, flooding and other acts of God. The occurrence of any of these hazards can delay or interrupt production and increase production costs. There is no guarantee that oil and/or gas will be discovered in any of the Group's existing or future licences/permitted acreage or that commercial quantities of oil and/or gas can be recovered.

The Group currently holds less than a 100 per cent working interest in its yet to be completed wells and in wells which are being drilled. It is also likely to hold less than 100 per cent in wells which may be drilled in the future. The Group could be held liable for the joint activity obligations of the other working interest owners, such as non-payment of costs and liabilities arising from the actions of those other working interest owners. In the event that other working interest owners do not pay their share of such costs, the Group would be likely to have to pay those costs but would pick up an additional proportionate interest in the well.

### ***Environmental risk***

The Group's operations are subject to environmental regulation in all the jurisdictions in which it operates. The Group is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would adversely affect the Group's operations. There can be no assurance that such new environmental legislation once implemented will not oblige the Group to incur significant expenses and undertake significant investments.

***Licences and title***

The leases in which the Group has or is seeking to have an interest will be subject to termination after the primary term of such leases unless there is current production of oil and/or gas in commercial quantities. If a lease is not extended after the primary term, the Group may lose the opportunity to develop and discover any hydrocarbon resources on that lease area. In taking an assignment of an oil and/or gas lease, the Group would, in accordance with industry practice, rely on the warranty provisions.

This report was approved by the Board on 30 April 2018 and signed on its behalf:

**Keith Edelman**

Non-Executive Director, Chairman

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 2017.

The Company's ordinary shares are listed on the London Stock Exchange, on the Official List pursuant to Chapter 14 of the Listing Rules, which sets out the requirements for Standard Listings.

#### Directors and Directors' interests

The Directors who held office during the year to the date of approval of these Financial Statements, together with their beneficial interests in the ordinary shares of the Company, are shown below.

|                                      | 31 December 2017 |                      | 1 January 2017<br>(or later date of appointment) |                      |
|--------------------------------------|------------------|----------------------|--|----------------------|
|                                      | Ordinary Shares  | Options and warrants | Ordinary Shares                                  | Options and warrants |
| Keith Edelman (Appointed 2 May 2017) | 1,000,000        | -                    | -  | -                    |
| Olof Rapp                            | 2,000,000        | -                    | -  | -                    |
| Philip Nash (Appointed 15 June 2017) | -                | -                    | -  | -                    |
| Thomas Evans <sup>(1)</sup>          | 5,000,000        | -                    | -  | -                    |

(1) Thomas Martin Evans shares are held by FHF Securities (A'Asia) Limited.

**Board of Directors****Keith Graeme Edelman, Non-Executive Chairman**

Keith Edelman graduated from UMIST (University of Manchester Institute Science and Technology) in 1971 with a BSc (Hons) in Management Sciences. He worked for Rank Xerox, IBM and Fiat before joining Bank of America in 1978. Starting as Planning Manager, EMEA Division and then Finance Director, UK and Nordic Region, he eventually became Managing Director of Bank of America Finance.

In 1983 he joined Grand Metropolitan as a UK Strategic Director/Director of Finance, Foods Division. In 1985 he joined the Ladbroke Group as Corporate Planning Director and completed a number of major acquisitions and disposals for that group these included the acquisitions of Hilton International, Texas Homecare Plc, Thomson T Line Plc and Gable House Properties Plc and disposals of many leisure businesses including Ladbroke Holidays, Seenews, the 20% stake in Central TV, Laskys to name but a few. Following the acquisition of Hilton International he became Chairman of Texas Homecare, a chain of DIY stores. In 1991 he left to become Managing Director of Carlton Communications and in 1993 Group Chief Executive of Storehouse plc, which included Mothercare and BHS.

He also held a number of executive and non-executive appointments, including Eurotunnel (Audit & Remuneration Committees 1994–2004), Haberdashers' Aske's School (Governor 1994–2005), where he was a pupil from prep school through A Levels, Include (Director (Charity) 1997 – 2001), Glenmorangie (Chairman 2002–2005), Qualceram Shires plc (Director 2005 to 2009) and Arnotts Holdings (2009-2010). Currently he is Chairman of Revolution Bars Group Plc, Chairman of Bullion by Post Limited, senior Independent Director of Supergroup Plc and a Director of the London Legacy Development Corporation and E20 LLP.

In 2000 he joined Arsenal Football Club as Managing Director, bringing his financial and business experience to the Club. Mr. Edelman was responsible for all commercial and administrative activities at the club. In a period of increased commercialisation of football, he completed the first strategic partnership the Club entered into since its formation, selling a 10 percent stake to Granada Media for £77 million. He oversaw the club's re-branding and crest redesign to create copyright protection and was subsequently involved in a sponsorship deal with Nike, valued at £130 million over 10 years.

He was instrumental in the club's development of its new stadium and he arranged all the funding raising over £380 million of banking facilities. He refinanced these projects finance borrowings with a credit wrapped AAA rated bond and in so doing established Arsenal as the very first Club to achieve an investment grade rating from the world's rating agencies. He also completed one of the largest football sponsorship deals with Emirates Airlines for over £100 million, including naming rights to the Emirates Stadium. He opened the stadium in August 2006 both on time and on budget and set up all the operational aspects of the stadium that has made Emirates so successful. He oversaw the development of Highbury Square and pre-sold over 90% of all units and brought the project in on time and on budget. In 2007 Keith became club President of the Arsenal Ladies team. He has always been pragmatic about the club's future and did not rule out the club eventually going public or the major shareholders eventually deciding to sell their stakes. He resigned as a Director at Arsenal Holdings plc on 1 May 2008 and continued until May 2009 as a consultant.

**Thomas Martin Evans, Executive Officer**

Thomas Evans started his career as a financial executive with Extel Financial Ltd, moving to equity sales at Barclays de Zoete Wedd Ltd and RBC Dominion Securities Limited, director CIBC World Markets Limited prior to founding Bishopsgate Capital Management Ltd in 2000 dealing in institutional fund management which was merged with Athanor Capital Partners Ltd assuming the role of Chief Investment Officer, expanding all the combined entities FSA regulated permitted businesses. Established TME Consulting creating UCITS compliant umbrella structure to be marketed to both retail and wholesale

**Board of Directors (continued)**

clients. CEO and founder of the Caplain group created to acquiring stockbroking and wealth management entities and Aerarius PCC Ltd (Guernsey) fund structure for European investment strategies. Financial Services Authority (UK) Ltd previously approved for the following control functions – CF1 Director, CF3 Chief Executive, CF8 Appointment & Oversight, CF27 Investment Management.

**Olof Nils Anders Rapp, Senior Non-Executive Director**

Olof Rapp joined VistaJet International as Senior Vice President in 2015 after 34 years with Rolls- Royce International and Volvo Truck Corporation. He has vast international experience and has held leading managerial positions in various parts of the world, from South America to Asia (Brazil, Iran, Turkey, Singapore, Thailand and Malaysia). His last position at Rolls Royce was as Regional Director, Malaysia, with overall responsibility for Rolls-Royce's business in Malaysia and Brunei (Civil & Defence Aviation, Marine, Civil Nuclear and Energy) and represented the company at the highest level, leading and facilitating the company's interest and activities. His last position at Volvo was Managing Director of Volvo Malaysia, where he led a successful restructuring of the company.

He was born in Gothenburg, Sweden, and studied International Business at IHM Business School. Olof is actively involved in several start-up companies and serves as a committee member of the Malaysian Swedish Business Association.

**Philip Tudor Nash, Non-Executive Financial Director**

Philip Nash qualified as a Chartered Accountant in 1997 and went on to join Hambros Bank, holding a number of finance positions in its Insurance arm, including Group Financial Controller of Cunningham Lindsey, a leading loss adjusting group. In 2001 he joined Arsenal Football Club as Stadium Project Director, reporting to the CEO. He was involved in all aspects of the successful Emirates Stadium Project including raising finance, financial control, project management and commercial activities. In 2008 Philip joined Liverpool Football Club as CFO and played a significant role in the transformation of the Club. He was involved in the sale of the Club to Fenway Sports Group in 2010. He strengthened the Club's finance and technology functions, improved governance and lead on a variety of major projects including the appraisal of the Anfield Stadium redevelopment. In 2014 Philip worked with Rangers International Football Club PLC which was listed on AIM. He initially joined as a consultant and was subsequently appointed Interim COO and a Board Director. Whilst at the Club, Philip identified and implemented a number of cost saving initiatives and raised over £3 million from a share issue. In 2015 he worked with the British Horse Racing Authority, where he developed a three-year business plan and led a business transformation program. Philip currently provides business consulting and advisory services to a number of different companies across several industries. Philip holds a Psychology degree from the University of Reading and is a member of the ICAEW.

### Directors' Remuneration

The Board assesses the appropriateness of the nature and amount of emoluments of its Directors on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and senior executive team.

No fees and benefits in kind were payable to Directors who held office during the year ended 31 December 2017 (2016: \$Nil).

Director Thomas Evans received a loan of £10,000 during the current reporting period which was outstanding as at 31 December 2017. The loan is repayable within 12 months.

### Directors' and Officers' Indemnity Insurance

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors and Officers. These were made during the previous period and remain in force at the date of this report.

### Dividends

The Directors do not recommend the payment of a dividend (2016: \$Nil).

### Share capital and major shareholdings

The issued share capital of the Company as at 31 December 2017 comprised 70,900,000 1p ordinary shares (2016: 8,600,000).

The Company has only one class of share capital formed of ordinary shares. All shares forming part of the ordinary share capital have the same rights and each carries one vote.

As at 27 April 2017 the Company had been notified of the following interests in the Company's ordinary share capital:

|                                 | Number of shares | Percentage |
|---------------------------------|------------------|------------|
| York Energy Group Limited       | 19,000,000       | 26.80      |
| International Immobiliare Ltd   | 16,300,000       | 22.99      |
| FHF Securities (A'Asia) Limited | 5,000,000        | 7.05       |
| Nomura PB Nominees Limited      | 3,605,000        | 5.08       |
| Nobel Petroleum Ireland Limited | 3,400,000        | 4.80       |
| FHF Corporate Finance Limited   | 3,300,000        | 4.65       |
| Invictorium Limited             | 3,200,000        | 4.51       |
| Mrs. B. Shaw                    | 3,200,000        | 4.51       |
| Mrs. P. Evans                   | 3,100,000        | 4.37       |

To the best of the Directors' knowledge, no shareholder directly or indirectly, exercises or could exercise control over the Company.

**Going Concern**

The Group has prepared cashflow forecasts for 12 months from the date of signing the Financial Statements. The forecast includes consideration as to the date when oil and gas are expected to flow and revenues generated and the cost of the delays incurred due to the adverse weather experienced by the US operation.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence through 31 December 2018, as projected. However, this expectation is subject to material adverse unforeseen events that may occur, including but not limited to oil and gas prices and non-operations control of wells.

**Events after the Reporting Period**

There were no significant events after the Reporting Period.

**Provision of Information to Auditor**

So far as each of the Directors is aware at the time this report is approved:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

**Independent Auditor**

The auditor, PKF Littlejohn LLP will be proposed for reappointment in accordance with section 485 of the Companies Act 2006. PKF Littlejohn LLP has signified its willingness to continue in office as auditor.

This report was approved by the board on 30 April 2018 and signed on its behalf:

**Keith Edelman**

Non-Executive Director, Chairman

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 Company and Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the applicable IFRS's as adopted by the European Union have been followed; subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the website is the responsibility of the Directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the Financial Statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements and other information included in annual reports may differ from legislation in other jurisdictions.

The Company is compliant with the London Stock Exchange regarding the Company's website.

This Statement was approved by the board on 30 April 2018 and signed on its behalf:

**Keith Edelman**

Non-Executive Director, Chairman

## Introduction

The Company recognises the importance of, and is committed to, high standards of corporate governance.

## Corporate Governance Practices

As a company with a Standard Listing, the Company is not required to comply with the provisions of the Corporate Governance Code. However, in the interests of observing best practice on corporate governance, the Company intends to comply with the provisions of the Corporate Governance Code insofar as is appropriate having regard to the size and nature of the Company and the size and composition of the Board, except that:

- given the size of the Board and the Company's current limited operational status, certain provisions of the Corporate Governance Code (in particular the provisions relating to the composition of the Board and the division of responsibilities between the Chairman and chief executive and executive compensation), are not being complied with by the Company as the Board does not consider these provisions to be appropriate for the Company;
- the Board as a whole will review audit, remuneration and risk matters, on the basis of adopted terms of reference governing the matters to be reviewed and the frequency with which such matters are considered. The Board as a whole will also take responsibility for the appointment of auditors and payment of their audit fee, monitor and review the integrity of the Company's financial statements and take responsibility for any formal announcements on the Company's financial performance;
- the Board as a whole will be responsible for the appointment of executive and non-executive Directors. The Company does not currently believe it is necessary to have a separate nominations committee at this time. The requirement for a nominations committee will be considered on an ongoing basis;
- the Board as a whole will consider the Board's size, structure and composition and the scale and structure of the Directors' fees, taking into account the interests of Shareholders and the performance of the Company;
- the Board does not comply with the provision of the Corporate Governance Code that at least half of the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be sufficiently independent;
- the Company has in place procedures ensuring compliance with the new Market Abuse Regulation and the Board will be responsible for taking all proper and reasonable steps to ensure compliance with the Market Abuse Regulation by the Directors; and
- the Company will not seek Shareholder approval at a general meeting in respect of any further acquisitions it may make, unless it is required to do so for the purposes of facilitating the financing arrangements or for other legal or regulatory reasons.

## The Board of Directors

As at 31 December 2017, the Board of Directors comprised four members: one Executive Director and three Non-Executive Directors. Keith Edelman was appointed to the Board on 2 May 2017, as Non-Executive Chairman. Philip Nash was appointed to the Board on 15 June 2017, as Non-Executive Finance Director. The Executive Director has a wealth of experience analytically covering the oil and gas industry. Similarly, the Non-Executive Directors together have extensive corporate and financial experience.

The Company has policy of appraising Board performance annually and had adopted an internal policy of regular face to face meetings in which all Board members discuss any issues as and when they arise in relation to the Board or any individual member's performance.

**Corporate Governance Practices (continued)****Board Meetings**

The Board ordinarily meets on a bi-monthly basis and as and when further required, providing effective leadership and overall management of the Group's affairs by reference to those matters reserved for its decision. This includes the approval of the budget and business plan, major capital expenditure, acquisitions and disposals, risk management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the Directors, in a timely manner, prior to the Board meetings.

|               | <b>Number held and entitled to attend</b> | <b>Number attended</b> |
|---------------|---|------------------------|
| Keith Edelman | 6   | 6                      |
| Thomas Evans  | 6   | 6                      |
| Olof Rapp     | 6   | 6                      |
| Philip Nash   | 6   | 6                      |

**Internal Controls**

The Board recognises the importance of both financial and non-financial controls and has reviewed the Group's control environment and any related shortfalls during the year. Since the Group was established, the Directors are satisfied that, given the current size and activities of the Group, adequate internal controls have been implemented. Whilst they are aware that no system can provide absolute assurance against material misstatement or loss, in light of the current activity and proposed future developments of the Group, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective.

**Relations with Shareholders**

The Board is committed to providing effective communication with the shareholders of the Company. Significant developments are disseminated through stock exchange announcements and regular updates on the Company website. The Board views the Annual General Meeting as a forum for communication between the Group and its shareholders and encourages their participation in its agenda.

**Keith Edelman**

Non-Executive Director, Chairman  
30 April 2018

## Introduction

### Board Meetings

### Directors' Remuneration Report

The Company's Remuneration Committee comprises two Non-Executive Directors: Keith Edelman (Chairman) and Olof Rapp.

Pennpetro's Remuneration Committee operates within the terms of reference approved by the Board.

In the year to 31 December 2017, the two members of the Remuneration Committee have not met.

The items included in this report are unaudited unless otherwise stated.

### Committee's main responsibilities

- The Remuneration Committee considers the remuneration policy, employment terms and remuneration of the Executive Directors;
- The Remuneration Committee's role is advisory in nature and it makes recommendations to the Board on the overall remuneration packages for Executive Directors in order to attract, retain and motivate high quality executives capable of achieving the Company's objectives;
- The Remuneration Committee also reviews proposals for any share option plans and other incentive plans, makes recommendations for the grant of awards under such plans as well as approving the terms of any performance-related pay schemes;
- The Board's policy is to remunerate the Company's executives fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel; and
- The Remuneration Committee, when considering the remuneration packages of the Company's executives, will review the policies of comparable companies in the industry.

### Consideration of shareholder views

The Remuneration Committee considers shareholder feedback received and guidance from shareholder bodies. This feedback, plus any additional feedback received from time to time, is considered as part of the Company's periodic reviews of its policy on remuneration.

### Statement of policy on Directors' remuneration

The Company's policy is to maintain levels of remuneration so as to attract, motivate, and retain Directors and Senior Executives of the highest caliber who can contribute their experience to deliver industry leading performance with the Company's operations. Currently Director's remuneration is not subject to specific performance targets.

In future periods the Company intends to implement a remuneration policy so that a meaningful proportion of Executive remuneration is structured so as to link rewards to corporate and individual performance, align their interests with those of shareholders and to incentivise them to perform at the highest levels. The Remuneration Committee considers remuneration policy and the employment terms and remuneration of the Executive Directors and makes recommendations to the Board of Directors on the overall remuneration packages for the Executive Directors. No Director takes part in any decision directly affecting their own remuneration.

**Directors Remuneration Report (continued)****Directors' remuneration**

The Directors who held office at 31 December 2017 are summarised as follows:

| <b>Name of Director</b> | <b>Position</b>                             |
|-------------------------|---|
| Keith Edelman           | Chairman, Non-Executive Director            |
| Thomas Evans            | Executive Director                          |
| Philip Nash             | Finance Director and Non-Executive Director |
| Olof Rapp               | Senior Non-Executive Director               |

Each of the Directors entered into service agreements when they were appointed as Directors of the Company. Details of those service agreements are set out below. The remuneration aspects of the service agreements only commenced after the Company was listed, which occurred on 21 December 2017. There were no other major remuneration decisions in the period.

Keith Edelman was appointed as a Non-Executive Director and Chairman of the Company on 2 May 2017 and entered into a letter of appointment with the Company. Pursuant to his letter of appointment Mr. Edelman is entitled to an annual fee of £35,000 for a minimum of 2 days' work per month, which includes consideration for chairing the Remuneration Committee. He will be entitled to an additional fee if he is required to perform any specific and additional services. The Chairman is not entitled to receive any compensation on termination of his appointment (other than payment in respect of a notice period where notice is served) and is entitled to be reimbursed all reasonable out-of-pocket expenses incurred in the proper performance of his duties. Mr. Edelman is entitled to participate in a share option pool, which will be established in 2018. Mr. Edelman's appointment is for an initial term of three years unless terminated earlier by either party giving to the other three month's prior written notice.

Thomas Evans was appointed as Executive Director of the Company on 17 June 2016 and entered into a letter of appointment with the Company. Pursuant to his letter of appointment Mr. Evans is entitled to an annual fee of £30,000 for a minimum of 2 days' work per month. He will be entitled to an additional fee if he is required to perform any specific and additional services. The Director is not entitled to receive any compensation on termination of his appointment (other than payment in respect of a notice period where notice is served) and is entitled to be reimbursed all reasonable out-of-pocket expenses incurred in the proper performance of his duties. Mr. Evans is entitled to participate in a share option pool, which will be established in 2018. Mr. Evans' appointment is for an initial term of three years unless terminated earlier by either party giving to the other three month's prior written notice.

Philip Nash was appointed as a Non-Executive Director and Finance Director of the Company on 17 June 2017 and entered into a letter of appointment with the Company. Pursuant to his letter of appointment Mr. Nash is entitled to an annual fee of £30,000 for a minimum of 2 days' work per month, which includes being a member of the Audit Committee. He will be entitled to an additional fee if he is required to perform any specific and additional services. The Director is not entitled to receive any compensation on termination of his appointment (other than payment in respect of a notice period where notice is served) and is entitled to be reimbursed all reasonable out-of-pocket expenses incurred in the proper performance of his duties. Mr. Nash is entitled to participate in a share option pool, which will be established in 2018. Mr. Nash's appointment is for an initial term of three years unless terminated earlier by either party giving to the other three month's prior written notice.

Olof Rapp was appointed as Senior Non-Executive Director of the Company on 6 May 2016 and entered into a letter of appointment with the Company. Pursuant to his letter of appointment Mr. Rapp is entitled to an annual fee of £30,000 for a minimum of 2 days' work per month, which includes being a member of the Remuneration Committee and the Audit Committee. He will be entitled to an additional fee if he is required to perform any specific and additional services. The Director is not entitled to receive any compensation on termination of his appointment (other than payment in respect of a notice period where notice is served) and is entitled to be reimbursed all reasonable out-of-pocket expenses incurred in the proper performance of his duties. Mr. Rapp is entitled to participate in a share option pool, which will be established in 2018. Mr. Rapp's appointment is for an initial term of three years unless terminated earlier by either party giving to the other three month's prior written notice.

**Directors Remuneration Report (continued)****Remuneration components**

None of the Directors earned any emoluments in the year ended 31 December 2017.

**Directors beneficial share interests (audited)**

The interests of the Directors who served during the year in the share capital of the Company at 31 December 2017 and at the date of this report were as follows:

|                                      | 31 December 2017 |                      | 1 January 2017<br>(or later date of appointment) |                      |
|--------------------------------------|------------------|----------------------|--|----------------------|
|                                      | Ordinary Shares  | Options and warrants | Ordinary Shares                                  | Options and warrants |
| Keith Edelman (Appointed 2 May 2017) | 1,000,000        | -                    | -  | -                    |
| Olof Rapp                            | 2,000,000        | -                    | -  | -                    |
| Philip Nash (Appointed 15 June 2017) | -                | -                    | -  | -                    |
| Thomas Evans <sup>(1)</sup>          | 5,000,000        | -                    | -  | -                    |

(1) Thomas Martin Evans shares are held by FHF Securities (A'Asia) Limited.

**Total pension entitlements (audited)**

The Company does currently not have any pension plans for any of the Directors and does not pay pension amounts in relation to their remuneration.

The Company has not paid out any excess retirement benefits to any Directors or past Directors.

**Payments to past directors (audited)**

The Company has not paid any compensation to past Directors.

**Payments for loss of office (audited)**

No payments were made for loss of office during the year.

**Directors interests in share warrants (audited)**

None of the Directors had interests in share warrants.

**Directors Remuneration Report (continued)****Policy for new appointments**

Base salary levels will take into account market data for the relevant role, internal relativities, the individual's experience and their current base salary. Where an individual is recruited at below market norms, they may be re-aligned over time (e.g. two to three years), subject to performance in the role. Benefits will generally be in accordance with the approved policy.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

**Policy on payment for loss of office**

Payment for loss of office would be determined by the remuneration committee, taking into account contractual obligations.

**Other matters**

The Company does not currently have any annual or long-term incentive schemes in place for any of the Directors and as such there are no disclosures in this respect.

**Share performance graph**

The Company only commenced trading on 21 December 2017 and given that there were only 5 trading days in the year under review, the Directors do not consider that there is sufficient data to provide meaningful information. Consequently, a graph is not included in this Report.

Approved by the Board on 30 April 2018.

**Keith Edelman**

Non-Executive Director, Chairman

## Audit Committee Report

The Audit Committee comprises two Non-Executive Directors (Olof Rapp and Philip Nash). It oversees the Company's financial reporting and internal controls and provides a formal reporting link with the external auditors. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly report remains with the Board.

## Main Responsibilities

The Audit Committee acts as a preparatory body for discharging the Board's responsibilities in a wide range of financial matters by:

- monitoring the integrity of the financial statements and formal announcements relating to the Company's financial performance;
- reviewing significant financial reporting issues, accounting policies and disclosures in financial reports, which are considered to be in accordance with the key audit matters identified by the external auditors;
- overseeing that an effective system of internal control and risk management systems are maintained;
- ensuring that an effective whistle-blowing, anti-fraud and bribery procedures are in place;
- overseeing the Board's relationship with the external auditor and, where appropriate, the selection of new external auditors;
- approving non-audit services provided by the external auditor, or any other accounting firm, ensuring the independence and objectivity of the external auditors is safeguarded when appointing them to conduct non-audit services; and
- ensuring compliance with legal requirements, accounting standards and the Listing Rules and the Disclosure and Transparency Rules;

## Governance

The Code requires that at least one member of the Audit Committee has recent and relevant financial experience. Philip Nash, who was appointed to the Audit Committee in 2017 has been a qualified Chartered Accountant with extensive experience of high level finance roles. As a result, the Board is satisfied that the Audit Committee has recent and relevant financial experience.

Members of the Audit Committee are appointed by the Board and whilst shareholders, the Company believes they are considered to be independent in both character and judgement.

The Company's external auditor is PKF Littlejohn LLP and the Audit Committee will closely monitor the level of audit services they provide to the Company.

The audit committee believes that the Company does not require an internal audit function due to the current size of the organisation and its operations.

## Meetings

In the year to 31 December 2017 the two members of the Audit Committee have met once.

The key work undertaken by the Audit Committee is as follows;

- interview of external auditors and recommendation to the Board
- review of audit planning and update on relevant accounting developments;
- consideration and approval of the risk management framework, appropriateness of key performance indicators;
- consideration and review of full-year results;
- review of the effectiveness of the Audit Committee; and
- review of internal controls

**Audit Committee Report (continued)**

The Code states that the Audit Committee should have primary responsibility for making a recommendation on the appointment, reappointment or removal of the external auditor.

**External auditor**

The Company's external auditor is PKF Littlejohn LLP. The external auditor has unrestricted access to the Audit Committee Chairman. The Committee is satisfied that PKF Littlejohn LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained. The external auditors report to the Audit Committee annually on their independence from the Company. In accordance with professional standards, the partner responsible for the audit is changed every five years. The current auditor, PKF Littlejohn LLP were first appointed by the Company in 2017 following a tender process later in the year, and therefore the current partner is due to rotate off the engagement after completing the December 2021 audit. Having assessed the performance objectivity and independence of the auditors, the Committee will be recommending the reappointment of PKF Littlejohn LLP as auditors to the Company at the 2018 Annual General Meeting.

**Keith Edelman**

Non-Executive Director, Chairman

30 April 2018

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNPETRO ENERGY PLC****Opinion**

We have audited the financial statements of Pennpetro Energy Plc (the "Company") and its subsidiaries (2the Group") for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and Company's affairs as at 31 December 2017 and of the Group's loss 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 IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Our application of materiality**

Materiality was calculated at £141,000 based on 2% of gross assets. This approach was considered appropriate due to where the areas of significant audit risk arose. We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatement. At the planning stage materiality is used to determine the financial statement areas that are included within the scope of our audit and the then extent of sample sizes during the audit.

**Independent Auditor's Report to the Members... (Continued)****Our application of maternity (continued)**

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £7,050. There were no misstatements identified during the course of our audit that individually, or in aggregate, considered to be material.

**An overview of the scope of our audit**

The Company and Group finance function is based in the United Kingdom and a full scope audit was carried out thereon from our office with discussions with management as required and with information being requested from the US where appropriate. This gave us sufficient appropriate evidence for our opinion on the consolidated financial statements.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| <b>Key Audit Matter</b>   | <b>How the scope of our audit responded to the key audit matter</b>  |
|---|--|
| <p><b>Acquisition of Noble Petroleum UK Limited</b></p> <p><b>During the period Pennpetro Energy Plc acquired Noble Petroleum UK Limited. This transaction is significant as through it the Company now holds Oil and Gas assets from which it can generate returns for its shareholders. Before the transaction the Company was in effect a cash shell.</b></p> <p><b>There is the risk that the acquisition has been accounted for incorrectly.</b></p> | <p>We performed the following work in order to address the identified risk:</p> <ul style="list-style-type: none"> <li>• Agreed acquisition details to the Share and Purchase Agreement;</li> <li>• Considered the accounting treatment of the acquisition and assessed whether it fell outside the scope of IFRS 3 "Business Combinations";</li> <li>• Reviewed the calculations prepared by management in respect of the acquisition for both mathematical accuracy and adherence to accounting convention; and</li> <li>• Reviewed the disclosures within the financial statements for appropriateness.</li> </ul>  |
| <p><b>Carry Value of Investment in subsidiaries</b></p> <p><b>The carrying value of Investments in subsidiaries (£7.2 million) represents the most material amount within the Company level financial statements. The value of the investment is reliant upon the Oil and Gas assets held within the subsidiaries.</b></p> <p><b>There is the risk that the carrying value of the investment is impaired.</b></p>   | <p>We performed an impairment review of the carrying value of the Company's interest within its subsidiaries. Our work included;</p> <ul style="list-style-type: none"> <li>• Reviewing the impairment indicators listed in IFRS;</li> <li>• Obtaining and reviewing the Competent Persons Report ("CPR") assessing the competency of the preparer and the mathematical accuracy of inputs used;</li> <li>• Obtaining support for ownership; and</li> <li>• Discussing with management the basis for impairment or non-impairment and challenging any assumptions made thereon.</li> </ul> <p>No indication of impairment was noted from the work performed.</p> |

**Independent Auditor's Report to the Members... (Continued)****Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions 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.

**Matters on which we are required to report by exception**

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 material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

**Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Independent Auditor's Report to the Members... (Continued)**

**Auditor's responsibilities for the audit of the financial statements (Continued)**

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditors>. This description forms part of our auditor's report.

**Other matters which we are required to address**

We were appointed by the Board of Directors in place of the audit committee on 7<sup>th</sup> February 2018 to audit the financial statements for the year ending 31 December 2017. Our total uninterrupted period of engagement is one year, covering the period ending 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

**Joseph Archer (Senior Statutory Auditor)**  
**For and on behalf of PKF Littlejohn LLP**

1 Westferry Circus  
Canary Wharf

Year ended 31 December 2017

|  | Note | Year ended<br>31 December<br>2017<br>\$ | Period ended<br>31 December<br>2016<br>\$ |
|--|------|---|---|
| <b>Continuing Operations</b>   |      |   |   |
| Administrative expenses  | 6    | (708,295)                               | (17,599)                                  |
|  |      | <hr/>                                   | <hr/>                                     |
| <b>Operating Loss</b>  |      | (708,295)                               | (17,599)                                  |
| Finance income   | 10   | 561,849                                 | -   |
| Finance costs  | 10   | (6,823)                                 | (239)                                     |
|  |      | <hr/>                                   | <hr/>                                     |
| <b>Loss before Tax</b>   |      | (153,269)                               | (17,838)                                  |
| Income tax   | 9    | -                                       | -   |
|  |      | <hr/>                                   | <hr/>                                     |
| <b>Loss for the year attributable to owners of the parent</b>  |      | <b>(153,269)</b>                        | <b>(17,838)</b>                           |
|  |      | <hr/> <hr/>                             | <hr/> <hr/>                               |
| <b>Other Comprehensive Income:<br/>Items that may be reclassified subsequently to profit<br/>or loss</b> |      |   |   |
| Currency translation differences   |      | 19,718                                  | -   |
|  |      | <hr/>                                   | <hr/>                                     |
| <b>Other Comprehensive Income for the Year, Net of Tax</b>   |      | 19,718                                  | -   |
|  |      | <hr/>                                   | <hr/>                                     |
| <b>Total Comprehensive Income for the Year attributable<br/>to the owners of the parent</b>              |      | <b>(133,551)</b>                        | <b>(17,838)</b>                           |
|  |      | <hr/> <hr/>                             | <hr/> <hr/>                               |
| <b>Loss per share attributable to the owners of the parent<br/>during the year</b>                       |      |   |   |
| Basic (cents per share)  | 11   | (0.003)                                 | (132.133)                                 |
|  |      | <hr/>                                   | <hr/>                                     |
| Diluted (cents per share)  |      | (0.003)                                 | (132.133)                                 |
|  |      | <hr/>                                   | <hr/>                                     |

The notes to the consolidated financial statements form an integral part of these Financial Statements.

|  | Note | As at<br>31 December<br>2017<br>\$ | As at<br>31 December<br>2016<br>\$ |
|--|------|------------------------------------|------------------------------------|
| <b>ASSETS</b>                                  |      |                                    |                                    |
| <b>Non-Current Assets</b>                      |      |                                    |                                    |
| Property, plant and equipment                  | 12   | 1,226,647                          | 1,160,508                          |
| Intangible assets                              | 13   | 2,173,533                          | -                                  |
| <b>Total Non-Current Assets</b>                |      | <b>3,400,180</b>                   | <b>1,160,508</b>                   |
| <b>Current Assets</b>                          |      |                                    |                                    |
| Trade and other receivables                    | 15   | 1,537,448                          | 28,112                             |
| Short term investments                         | 16   | 2,073,299                          | -                                  |
| Cash and cash equivalents                      | 17   | 22,073                             | 20,904                             |
| <b>Total Current Assets</b>                    |      | <b>3,632,820</b>                   | <b>49,016</b>                      |
| <b>TOTAL ASSETS</b>                            |      | <b>7,033,000</b>                   | <b>1,209,524</b>                   |
| <b>EQUITY AND LIABILITIES</b>                  |      |                                    |                                    |
| <b>Equity attributable to Owners of Parent</b> |      |                                    |                                    |
| Share capital                                  | 18   | 908,404                            | 135                                |
| Share premium                                  | 18   | 625,504                            | -                                  |
| Convertible reserve                            |      | 6,021,575                          | -                                  |
| Reorganisation reserve                         |      | (6,578,229)                        | -                                  |
| Foreign exchange reserve                       |      | 19,718                             | -                                  |
| Retained losses                                |      | (266,738)                          | (17,838)                           |
| <b>Total Equity</b>                            |      | <b>730,234</b>                     | <b>(17,703)</b>                    |
| <b>Non-Current Liabilities</b>                 |      |                                    |                                    |
| Borrowings                                     | 19   | 6,092,657                          | 1,185,000                          |
| <b>Total Non-Current Liabilities</b>           |      | <b>6,092,657</b>                   | <b>-</b>                           |
| <b>Current Liabilities</b>                     |      |                                    |                                    |
| Trade and other payables                       | 20   | 210,109                            | 42,227                             |
| <b>Total Current Liabilities</b>               |      | <b>210,109</b>                     | <b>42,227</b>                      |
| <b>TOTAL EQUITY AND LIABILITIES</b>            |      | <b>7,033,000</b>                   | <b>1,209,524</b>                   |

These Financial Statements were approved by the Board of Directors on 30 April 2018 and signed on its behalf by:

**Keith Edelman**  
Non-Executive Director, Chairman

The notes to the consolidated financial statements form an integral part of these Financial Statements.

|  | Note | As at<br>31 December<br>2017<br>\$ | As at<br>31 December<br>2016<br>\$ |
|--|------|------------------------------------|------------------------------------|
| <b>ASSETS</b>                              |      |                                    |                                    |
| <b>Non-Current Assets</b>                  |      |                                    |                                    |
| Investments in subsidiaries                | 14   | 7,027,100                          | -                                  |
| Property, plant and equipment              | 12   | 5,700                              | 3,653                              |
|  |      | <hr/>                              | <hr/>                              |
| <b>Total Non-Current Assets</b>            |      | 7,032,800                          | 3,653                              |
|  |      | <hr/>                              | <hr/>                              |
| <b>Current Assets</b>                      |      |                                    |                                    |
| Trade and other receivables                | 15   | 13,514                             | -                                  |
| Short term investments                     | 16   | 1,194,948                          | 347,904                            |
| Cash and cash equivalents                  | 17   | -                                  | -                                  |
|  |      | <hr/>                              | <hr/>                              |
| <b>Total Current Assets</b>                |      | 1,208,462                          | 347,904                            |
|  |      | <hr/>                              | <hr/>                              |
| <b>TOTAL ASSETS</b>                        |      | <b>8,241,262</b>                   | <b>351,557</b>                     |
|  |      | <hr/> <hr/>                        | <hr/> <hr/>                        |
| <b>EQUITY AND LIABILITIES</b>              |      |                                    |                                    |
| <b>Equity attributable to Shareholders</b> |      |                                    |                                    |
| Share capital                              | 18   | 908,404                            | 116,590                            |
| Share premium                              | 18   | 625,504                            | 303,677                            |
| Convertible reserve                        |      | 6,021,575                          | -                                  |
| Foreign exchange reserve                   |      | 417,578                            | (33,358)                           |
| Retained losses                            |      | (714,397)                          | (44,620)                           |
|  |      | <hr/>                              | <hr/>                              |
| <b>Total Equity</b>                        |      | 7,258,664                          | 342,289                            |
|  |      | <hr/>                              | <hr/>                              |
| <b>Current Liabilities</b>                 |      |                                    |                                    |
| Trade and other payables                   | 20   | 982,598                            | 9,268                              |
|  |      | <hr/>                              | <hr/>                              |
| <b>Total Current Liabilities</b>           |      | 982,598                            | 9,268                              |
|  |      | <hr/>                              | <hr/>                              |
| <b>TOTAL EQUITY AND LIABILITIES</b>        |      | <b>8,241,262</b>                   | <b>351,557</b>                     |
|  |      | <hr/> <hr/>                        | <hr/> <hr/>                        |

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the Parent Company Statement of Comprehensive Income. The loss for the Parent Company for the year was \$669,777 (2016: \$44,620).

These Financial Statements were approved by the Board of Directors on 30 April 2018 and were signed on its behalf by:

**Keith Edelman**  
Non-Executive Director, Chairman

The notes to the consolidated financial statements form an integral part of these Financial Statements.

PENNPETRO ENERGY PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
Year ended 31 December 2017

| Group (\$)  | Share capital  | Share Premium  | Attributable to the owners of the parent |                               |                                | Retained losses  | Total equity     |
|---|----------------|----------------|--|-------------------------------|--------------------------------|------------------|------------------|
|   |                |                | Convertible reserve                      | Reorganisa<br>tion<br>reserve | Foreign<br>Exchange<br>Reserve |                  |                  |
| <b>At incorporation</b>                                       | -              | -              | -  | -                             | -                              | -                | -                |
| Loss for the period   | -              | -              | -  | -                             | -                              | (17,838)         | (17,838)         |
| <b>Total Comprehensive Income for the Period</b>              | -              | -              | -  | -                             | -                              | <b>(17,838)</b>  | <b>(17,838)</b>  |
| <b>Transactions with Owners</b>                               |                |                |  |                               |                                |                  |                  |
| Shares issued for cash  | 135            | -              | -  | -                             | -                              | -                | 135              |
| <b>Transaction with owners, recognised directly in equity</b> | <b>135</b>     | <b>-</b>       | <b>-</b>                                 | <b>-</b>                      | <b>-</b>                       | <b>-</b>         | <b>135</b>       |
| <b>Balance at 31 December 2016</b>                            | <b>135</b>     | <b>-</b>       | <b>-</b>                                 | <b>-</b>                      | <b>-</b>                       | <b>(17,838)</b>  | <b>(17,703)</b>  |
| <b>Balance at 1 January 2017</b>                              | <b>135</b>     | <b>-</b>       | <b>-</b>                                 | <b>-</b>                      | <b>-</b>                       | <b>(17,838)</b>  | <b>(17,703)</b>  |
| Loss for the year   | -              | -              | -  | -                             | -                              | (153,269)        | (153,269)        |
| <b>Other Comprehensive Income</b>                             |                |                |  |                               |                                |                  |                  |
| Currency translation differences                              | -              | -              | -  | -                             | 19,718                         | -                | 19,718           |
| <b>Total Comprehensive Income for the Year</b>                | <b>-</b>       | <b>-</b>       | <b>-</b>                                 | <b>-</b>                      | <b>19,718</b>                  | <b>(153,269)</b> | <b>(133,551)</b> |
| <b>Transactions with Owners</b>                               |                |                |  |                               |                                |                  |                  |
| Reverse merger  | 687,055        | 303,677        | 6,021,575                                | (6,578,229)                   | -                              | (95,631)         | 338,447          |
| Shares issued for   | 191,550        | -              | -  | -                             | -                              | -                | 191,550          |
| Shares issued for cash  | 29,799         | 332,969        | -  | -                             | -                              | -                | 362,768          |
| Share raising cost  | -              | (11,142)       | -  | -                             | -                              | -                | (11,142)         |
| <b>Transaction with owners, recognised directly in equity</b> | <b>908,404</b> | <b>625,504</b> | <b>6,021,575</b>                         | <b>(6,578,229)</b>            | <b>-</b>                       | <b>(95,631)</b>  | <b>881,623</b>   |
| <b>Balance at 31 December 2017</b>                            | <b>908,404</b> | <b>625,504</b> | <b>6,021,575</b>                         | <b>(6,578,229)</b>            | <b>19,718</b>                  | <b>(266,738)</b> | <b>730,234</b>   |

The notes to the consolidated financial statements form an integral part of these Financial Statements.

**PENNPETRO ENERGY PLC**
**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**Year ended 31 December 2017**

| Company (\$)   | Attributable to the shareholders |                |                     |                  |                     |                  |
|--|----------------------------------|----------------|---------------------|------------------|---------------------|------------------|
|  | Share capital                    | Share premium  | Convertible reserve | Retained losses  | Translation reserve | Total equity     |
| <b>At incorporation</b>  | -                                | -              | -                   | -                | -                   | -                |
| Loss for the period  | -                                | -              | -                   | (44,620)         | -                   | (44,620)         |
| <b>Other Comprehensive Income</b>  |                                  |                |                     |                  |                     |                  |
| Currency translation differences   | -                                | -              | -                   | -                | (33,358)            | (33,358)         |
| <b>Total Comprehensive Income for the Period</b>   | -                                | -              | -                   | <b>(44,620)</b>  | <b>(33,358)</b>     | <b>(77,978)</b>  |
| <b>Transactions with Owners</b>  |                                  |                |                     |                  |                     |                  |
| Shares issued for cash   | 116,590                          | 303,677        | -                   | -                | -                   | 420,267          |
| <b>Total contributions by and distributions to owners of the parent, recognised directly in equity</b> | <b>116,590</b>                   | <b>303,677</b> | -                   | -                | -                   | <b>420,267</b>   |
| <b>Balance at 31 December 2016</b>   | <b>116,590</b>                   | <b>303,677</b> | -                   | <b>(44,620)</b>  | <b>(33,358)</b>     | <b>342,289</b>   |
| <b>Balance at 1 January 2017</b>   | <b>116,590</b>                   | <b>303,677</b> | -                   | <b>(44,620)</b>  | <b>(33,358)</b>     | <b>342,289</b>   |
| Loss for the year  | -                                | -              | -                   | (669,777)        | -                   | (669,777)        |
| <b>Other Comprehensive Income</b>  | -                                | -              | -                   | -                | <b>450,936</b>      | <b>450,936</b>   |
| <b>Total Comprehensive Income for the Year</b>   | -                                | -              | -                   | <b>(669,777)</b> | <b>450,936</b>      | <b>123,448</b>   |
| <b>Transactions with Owners</b>  |                                  |                |                     |                  |                     |                  |
| Shares issued for cash   | 29,799                           | 332,969        | -                   | -                | -                   | 362,768          |
| Shares issued as consideration for listing fees  | 191,550                          | -              | -                   | -                | -                   | 191,550          |
| Shares issued as consideration in the reverse merger   | 570,465                          | -              | -                   | -                | -                   | 570,465          |
| Convertible loan note issued as consideration in the reverse merger                                    | -                                | -              | 6,021,575           | -                | -                   | 6,021,575        |
| Share issue costs  | -                                | (11,142)       | -                   | -                | -                   | (11,142)         |
| <b>Total contributions by and distributions to owners of the parent, recognised directly in equity</b> | <b>791,814</b>                   | <b>321,827</b> | <b>6,021,575</b>    | -                | -                   | <b>7,135,216</b> |
| <b>Balance at 31 December 2017</b>   | <b>908,404</b>                   | <b>625,504</b> | <b>6,021,575</b>    | <b>(714,397)</b> | <b>417,578</b>      | <b>7,258,664</b> |

The notes to the consolidated financial statements form an integral part of these Financial Statements.

|  | Note | Year ended<br>31 December<br>2017<br>\$ | Period ended<br>31 December<br>2016<br>\$ |
|--|------|---|---|
| <b>Cash Flows from Operating Activities</b>                  |      |   |   |
| (Loss) before tax  |      | (153,269)                               | (17,838)                                  |
| Depreciation   | 12   | 2,921                                   | -   |
| Amortisation   |      | 5,557                                   | -   |
| Finance income   | 10   | (561,849)                               | -   |
| Finance costs  | 10   | 6,823                                   | 239                                       |
|  |      | <hr/>                                   | <hr/>                                     |
|  |      | (669,817)                               | (17,599)                                  |
| <b>Changes to working capital</b>                            |      |   |   |
| (Increase) in trade and other receivables                    |      | (439,131)                               | (28,112)                                  |
| Increase in trade and other payables                         |      | 167,747                                 | 42,227                                    |
| Trade and other payables on reverse merger                   |      | (9,268)                                 | -   |
| Shares issued to settle professional fees                    | 18   | 191,550                                 | -   |
|  |      | <hr/>                                   | <hr/>                                     |
| <b>Cash used in operations</b>                               |      | <b>(788,919)</b>                        | <b>(3,484)</b>                            |
| Interest paid  | 10   | (6,912)                                 | (239)                                     |
|  |      | <hr/>                                   | <hr/>                                     |
| <b>Net Cash used in Operating Activities</b>                 |      | <b>(795,831)</b>                        | <b>(3,723)</b>                            |
| <b>Cash Flows from Investing Activities</b>                  |      |   |   |
| Purchases of development expenditure                         | 13   | (2,978,956)                             | -   |
| Purchases of property, plant and equipment                   | 12   | (65,065)                                | (1,160,508)                               |
| Interest received  | 10   | 89                                      | -   |
|  |      | <hr/>                                   | <hr/>                                     |
| <b>Net Cash used in Investing Activities</b>                 |      | <b>(3,043,932)</b>                      | <b>(1,160,508)</b>                        |
| <b>Cash Flows from Financing Activities</b>                  |      |   |   |
| Proceeds from issue of ordinary shares                       | 18   | 362,768                                 | 135                                       |
| Issue costs  | 18   | (11,142)                                | -   |
| Short term investments                                       |      | (2,073,299)                             | -   |
| Proceeds from borrowings                                     |      | 5,469,506                               | 1,185,000                                 |
| Borrowing arrangement fees                                   |      | (270,339)                               | -   |
| Short term investments on reverse merger                     |      | 347,904                                 | -   |
|  |      | <hr/>                                   | <hr/>                                     |
| <b>Net Cash generated from Financing Activities</b>          |      | <b>3,825,398</b>                        | <b>1,185,135</b>                          |
|  |      | <hr/>                                   | <hr/>                                     |
| <b>Net (Decrease)/ Increase in Cash and Cash Equivalents</b> |      | <b>(14,365)</b>                         | <b>20,904</b>                             |
| <b>Movement in Cash and Cash Equivalents</b>                 |      |   |   |
| Cash and cash equivalents at the beginning of the year       | 17   | 20,904                                  | -   |
| Exchange gain on cash and cash equivalents                   |      | 15,534                                  | -   |
| Net (decrease)/Increase in cash and cash equivalents         |      | (14,365)                                | 20,904                                    |
|  |      | <hr/>                                   | <hr/>                                     |
| <b>Cash and Cash Equivalents at the End of the Year</b>      | 17   | <b>22,073</b>                           | <b>20,904</b>                             |

The notes to the consolidated financial statements form an integral part of these Financial Statements.

|  | Note | Year<br>ended<br>31 December<br>2017<br>\$ | Period<br>ended<br>31 December<br>2016<br>\$ |
|--|------|--|--|
| <b>Cash Flows from Operating Activities</b>                    |      |  |  |
| Loss before tax  |      | (669,777)                                  | (44,620)                                     |
| Depreciation   |      | 2,344                                      | 1,218  |
| Finance income   |      | (89)                                       | (10)   |
| Finance costs  |      | 643  | 92   |
|  |      | <hr/>                                      | <hr/>  |
|  |      | (666,879)                                  | (43,320)                                     |
| <b>Changes to working capital</b>                              |      |  |  |
| Increase in funding received from subsidiary undertaking       |      | 793,960                                    | -  |
| Increase in trade and other receivables                        |      | (13,514)                                   | -  |
| Increase in trade and other payables                           |      | 179,370                                    | 9,268  |
| Shares issued to settle professional fees                      | 18   | 191,550                                    | -  |
|  |      | <hr/>                                      | <hr/>  |
|  |      | 1,151,366                                  | 9,268  |
| <b>Cash generated/ (used in) operations</b>                    |      | <b>484,487</b>                             | <b>(34,052)</b>                              |
| Interest paid  |      | (643)                                      | (92)   |
| <b>Net Cash generated from/ (used in) Operating Activities</b> |      | <b>483,844</b>                             | <b>(34,144)</b>                              |
| <b>Cash Flows from Investing Activities</b>                    |      |  |  |
| Purchase of property, plant and equipment                      | 12   | (4,049)                                    | (4,871)                                      |
| Interest received  |      | 89   | 10   |
|  |      | <hr/>                                      | <hr/>  |
| <b>Net Cash used in Investing Activities</b>                   |      | <b>(3,960)</b>                             | <b>(4,861)</b>                               |
| <b>Cash Flows from Financing Activities</b>                    |      |  |  |
| Proceeds from issue of ordinary shares                         | 18   | 362,768                                    | 383,067                                      |
| Issue costs  | 18   | (11,142)                                   | -  |
| Transfers to short term investments                            |      | (831,510)                                  | (347,904)                                    |
|  |      | <hr/>                                      | <hr/>  |
| <b>Net Cash generated from/ (used in) Financing Activities</b> |      | <b>(479,884)</b>                           | <b>35,163</b>                                |
| <b>Net movement in Cash and Cash Equivalents</b>               |      | <b>-</b>                                   | <b>(3,842)</b>                               |
| Cash and cash equivalents at the beginning of the year         | 17   | -  | -  |
| Exchange gain on cash and cash equivalents                     |      | -  | 3,842  |
| Net Decrease in cash and cash equivalents                      |      | -  | (3,842)                                      |
|  |      | <hr/>                                      | <hr/>  |
| <b>Cash and Cash Equivalents at the End of the Year</b>        | 17   | <b>-</b>                                   | <b>-</b>                                     |

The notes to the consolidated financial statements form an integral part of these Financial Statements.

## 1. GENERAL INFORMATION

The Consolidated Financial Statements of Pennpetro Energy plc (“the Company”) consists of the following companies (together “the Group”):

|                            |                       |
|----------------------------|-----------------------|
| Pennpetro Energy plc       | UK registered company |
| Nobel Petroleum UK Limited | UK registered company |
| Nobel Petroleum USA Inc    | US registered company |
| Nobel Petroleum LLC        | US registered company |

The Company is a public limited company which is listed on the standard market of the London Stock Exchange and incorporated and domiciled in England and Wales. Its registered office address is First Floor, 88 Whitfield Street, London, W1T 4EZ.

The Group is an oil and gas developer with assets in Texas, United States. The Company’s US-based subsidiaries own a portfolio of leasehold petroleum mineral interests centred on the City of Gonzalez, in southeast Texas, comprising the undeveloped central portion of the Gonzales Oil Field.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1. Basis of preparation of Financial Statements

The Consolidated Financial Statements of Pennpetro Energy plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The Financial Statements have been prepared under the historical cost convention.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated Financial Statements, are disclosed in Note 4.

### 2.2. Basis of consolidation

The Consolidated Financial Statements consolidate the Financial Statements of Pennpetro Energy plc and the audited Financial Statements of its subsidiary undertaking made up to 31 December 2017. The comparative figures consolidate the Consolidated Financial Statements of Nobel Petroleum UK Limited and the audited Financial Statements of its subsidiaries. This is a consequence of the reverse merger accounting treatment of this transaction.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group. All inter-company transactions and balances between Group entities are eliminated on consolidation.

## 2.2 Basis of consolidation (continued)

### Acquisition

On 17 May 2017 Pennpetro energy plc ("Pennpetro") acquired 100% of the issued capital of Nobel Petroleum UK Limited ("Nobel UK") in a share for share exchange with the shareholders of Nobel UK's parent company at that time, Nobel Petroleum Ireland Limited ("Nobel Ireland"). Due to the relative size of the companies, Nobel Ireland's shareholders became the majority shareholders in the enlarged share capital. Pennpetro's shares were later listed on the London Stock Exchange in December 2017.

The transaction fell outside the scope of IFRS 3 ("Business Combinations") and as such has been treated as a group reconstruction and has been accounted for using the reverse merger accounting method. Accordingly, the consolidated financial statements have been treated as being a continuation of the consolidated financial statements of Nobel UK, with Pennpetro being treated as the acquired entity for accounting purposes. Accordingly, the financial information for the current period and comparatives has been presented as if Nobel UK had been owned by Pennpetro throughout the current and prior period.

### Reason for the reverse merger

Pennpetro was incorporated with the intention of obtaining a Listing on the LSE shortly after completing a reverse merger with Nobel UK Limited by way of a share swap with Nobel UK's parent company Nobel Ireland. Nobel Ireland's shareholders retained a majority interest in the listed Pennpetro after the transaction.

### Business Combinations

The acquisition of other subsidiaries are expected to be accounted for using the acquisition method of accounting. The consideration transferred for the acquisition is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39, either in the Income Statement or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the identifiable net assets acquired and liabilities assumed.

## 2.3. Going concern

The Group's business activities, together with the factors likely to affect its future development and performance are set out in the Executive Director's Statement. In addition, notes 3 and 23 to the Financial Statements disclose the Group's and Company's objectives, policies and processes for managing financial risks and capital.

The Group has prepared cashflow forecasts for 12 months from the date of signing the Financial Statements. The forecast includes consideration as to the date when oil and gas are expected to flow and revenues generated and the cost of the delays incurred due to the adverse weather experienced by the US operation.

The Directors have considered these forecasts and have a reasonable expectation that the Company and Group has adequate resources to continue in operational existence through 31 December 2018 as projected; however subject to material adverse unforeseen events that may occur, including but not limited to oil and gas prices and non-operational control of wells. For this reason, the Directors continue to adopt the going concern basis of accounting in preparing the Financial Statements.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4.Changes in accounting policy and disclosure****a) New standards, amendments and interpretations adopted by the Group**

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2017 have had a material impact on the Group or Company.

**b) New and amended standards and interpretations issued but not yet effective or endorsed and not early adopted**

At the date of authorisation of these Financial Statements, the Group and Company have not applied the following new and revised IFRSs that have been issued but are not yet effective and (in some cases) have not yet been endorsed by the EU. The Group and Company intend to adopt these standards, if applicable, when they become effective.

| <b>Standard / Interpretation</b> | <b>Title</b>  | <b>Effective date</b>            |
|----------------------------------|---|----------------------------------|
| IAS 7 (Amendments)               | Results of the Disclosure Initiative                                    | *1 January 2017                  |
| IAS 12 (Amendments)              | Recognition of Deferred Tax Assets for Unrealised Losses                | *1 January 2017                  |
| IAS 28 (Amendments)              | Accounting for Investments - Applying the Consolidation Exception       | Postponed                        |
| IFRS 2 (Amendments)              | Classification and Measurement of Share Based Payment Transactions      | *1 January 2018                  |
| IFRS 9                           | Financial Instruments   | 1 January 2018                   |
| IFRS 10 (Amendments)             | Consolidated Financial Statements: Applying the Consolidation Exception | Postponed                        |
| IFRS 15                          | Revenue from Contracts with Customers                                   | 1 January 2018                   |
| IFRS 16                          | Leases  | 1 January 2019                   |
| IFRS 15 (Clarifications)         | Revenue from Contracts with Customers                                   | 1 January 2018                   |
| Annual Improvements              | Annual Improvements to IFRS Standard 2014-2016 Cycle                    | *1 January 2017 / 1 January 2018 |
| IFRIC Interpretation 22          | Foreign Currency Transactions and Advance Consideration                 | *1 January 2018                  |

\* *Subject to EU endorsement*

The Group and Company are evaluating the impact of the new and amended standards above. The Directors do not anticipate that the adoption of these standards, amendments and interpretations will have a material impact on the Group's financial statements in the periods of initial application.

**2.5.Revenue recognition**

Revenue represents the amounts receivable from operators for the Group's share of oil and / or gas revenues less any royalties payable to the lessor or assignor of the mineral rights. Revenue is recognised in the period to which the declarations from the operators relate.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.6. Foreign Currency Translation****(a) Functional and presentation currency**

Items included in each of the Financial Statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of the UK parent entity and Nobel UK Limited is sterling and the functional currency of the US subsidiaries is US Dollars. The Financial Statements are presented in US Dollars, rounded to the nearest Dollar, which is the Group's and Company's presentation currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where such items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

**(c) Group companies**

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of monetary items receivable from foreign subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future are taken to other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in the Statement of Comprehensive Income as part of the gain or loss on sale.

**2.7. Property, plant and equipment**

Following evaluation of successful exploration of wells, if commercial reserves are established and the technical feasibility of extraction demonstrated, and once a project is sanctioned for commercial development, then the related capitalised exploration costs are transferred into a single field cost centre within 'producing properties' within property, plant and equipment after testing for impairment. Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the Statement of Comprehensive Income.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.7. Property, plant and equipment (continued)**

The net book values of 'producing properties' are depreciated on a unit of production basis at a rate calculated by reference to proven and probable reserves and incorporating the estimated future cost of developing and extracting those reserves once production has commenced.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated, are capitalised within 'drilling costs and equipment' on a well by well basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any costs remaining associated with the part replaced are expensed.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Statement of Comprehensive Income.

All property, plant and equipment other than oil and gas assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets, over their estimated useful lives, on a straight line basis as follows:

Office equipment – 4 years

Oil and gas producing properties held in property, plant and equipment are mainly depreciated on a unit of production basis at a rate calculated by reference to proven and probable reserves and incorporating the estimated future cost of developing and extracting those reserves.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year-end.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.8. Intangible assets****a. Development expenditure**

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including service, is capitalized initially within intangible fixed assets and when the well has formally commenced commercial production, then it is transferred to property, plant and equipment and is depreciated from the commencement of production as described in the accounting policy for property, plant and equipment

**b. Drilling costs and Petroleum mineral leases**

The Group applies the successful efforts method of accounting for oil and gas assets, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Statement of Comprehensive Income.

Expenditure incurred on the acquisition of a licence interest is initially capitalised within intangible assets on a licence by licence basis. Costs are held, unamortised, within Petroleum mineral leases until such time as the exploration phase of the licence area is complete or commercial reserves have been discovered. The cost of the licence is subsequently transferred into "Producing Properties" within property, plant and equipment and depreciated over its estimated useful economic life.

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within intangible assets as drilling costs. Drilling costs are initially capitalised on a well by well basis until the success or otherwise has been established. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercially viable. Drilling costs are subsequently transferred into 'Drilling expenditure' within property, plant and equipment and depreciated over their estimated useful economic life. All such costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop or otherwise extract value from the discovery. Where this is no longer the case, the costs are immediately expensed to the Statement of Comprehensive Income.

**Impairment of Non-Financial Assets**

Assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9. Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment.

### 2.10. Financial assets

#### Classification

Financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. At initial recognition, the Group classifies its financial assets as loans and receivables which comprise 'trade and other receivables' and 'cash and cash equivalents'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

#### Recognition and measurement

Loans and receivables are initially recognised at the amount expected to be received, less where material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortised cost using the effective interest method less a provision for impairment.

#### Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Derecognition also takes place for certain assets when the Group writes-off balances pertaining to the assets deemed to be uncollectible.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

#### Impairment of financial assets

At each Statement of Financial Position date, the Group assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The Group considers the evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the Income Statement.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.11.Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

**2.12.Short term investments**

Short term investments include amounts held in bank accounts and deposits by financial service companies that have been approved by the Directors.

**2.13.Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand and demand deposits with banks.

**2.14.Trade and other payables**

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

**2.15.Borrowings**

Borrowings are recognised initially at fair value. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings, using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

**2.16.Borrowing costs**

Arrangement fees and commissions in relation to the Loan provided to the Group by Pennpetro Bonds II Limited have initially been capitalised in Intangible assets and are subsequently charged to the Comprehensive Income Statement over the period that the Loan is available to the Group.

**2.17.Share capital**

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18. Reserves

The reorganisation merger as described in Accounting policy 2.2 has been accounted for as a share-based payment transaction which should be accounted for in accordance with IFRS 2. On the basis of the guidance in para 13A of IFRS 2, the reverse merger has been treated as a continuation of the Nobel Group into the Pennpetro Group. The consideration included the issue of new share capital and the issue of a convertible bond. The total consideration less the share capital in Nobel UK resulted in the creation of the reverse merger reserve.

The convertible reserve represents the principal value of a mandatory convertible note issued by Pennpetro Petroleum plc to Nobel Petroleum Ireland Limited in part consideration for the acquisition of Nobel Petroleum UK under an agreement dated 17 May 2017.

The translation reserve represents effects of currency translation in the year.

### 2.19. Taxation

The tax expense or credit comprises current and deferred tax. It is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are 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 negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit.

Deferred tax 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. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20. Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The CODM is determined to be the board of Directors.

### 2.21. Exceptional items

Exceptional items are disclosed separately in the Financial Statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

## 3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow and interest rate risk), credit risk and liquidity risk.

### *Market risk*

The Group operates in an international market for hydrocarbons and is exposed to risk arising from variations in the demand for and price of the hydrocarbons. Oil and gas prices historically have fluctuated widely and are affected by numerous factors over which the Group has no control, including world production levels, international economic trends, exchange rate fluctuations, speculative activity and global or regional political events.

#### a) *Currency risk*

The majority of the Group's purchase transactions and expenditure are denominated in US dollars. The currencies are stable, and any exchange risk is managed by maintaining bank accounts denominated in those currencies.

### *Credit risk*

Credit risk represents the risk of loss the Group would incur if operators and counterparties fail to fulfil their credit obligations. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Where the Group is not an operator of wells, the Group's trade receivables and accrued income result from contractual amounts due from third party operators. The risk is concentrated between a relatively small group of operators given the small number of parties involved in oil and gas exploration and production activities. The Group seeks to mitigate this risk where possible by assessing the credit quality of the operators and by establishing ongoing and long-term relationships.

### *Liquidity risk*

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs, while seeking to maintain sufficient headroom on its undrawn committed borrowing facilities (Note 19) at all times, so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal Statement of Financial Position ratio targets, and, if applicable, external regulatory or legal requirements (for example, currency restrictions).

**3 FINANCIAL RISK MANAGEMENT (continued)**

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings, based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| <b>Group<br/>At 31 December 2017</b> | <b>Less than<br/>1 year</b> | <b>Between<br/>2 and 3 years</b> |
|--------------------------------------|-----------------------------|----------------------------------|
| Borrowings (undiscounted)            | -                           | 6,654,506                        |
| Trade and other payables             | 209,974                     | -                                |
| <b>At 31 December 2016</b>           |                             |                                  |
| Borrowings                           | -                           | 1,185,000                        |
| Trade and other payables             | 42,227                      | -                                |

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS*****Use of estimates and judgements***

The preparation of Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below.

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

##### ***Estimated impairment of producing properties and capitalised drilling costs & equipment***

At 31 December 2017, petroleum mineral leases and capitalised drilling costs & equipment on petroleum properties have a total carrying value of \$3,127,966 (2016: \$1,158,199), (Notes 12 and 13). Management tests annually whether the assets have future economic value in accordance with the accounting policies. These assets are also subject to an annual impairment review by an independent consultant.

The recoverable amount of each property has been determined based on a value in use calculation which requires the use of certain estimates and assumptions such as long-term commodity prices (i.e. oil and gas prices), discount rates, operating costs, future capital requirements and mineral resource estimates. These estimates and assumptions are subject to risk and uncertainty and therefore a possibility that changes in circumstances will impact the recoverable amount.

The following estimates have been used by the Directors in determining the recoverability of the Company's Petroleum properties. The Source for these estimates is the Competent Persons Report ("CPR") prepared in December 2017.

- The Pennpetro Group owns approximately 1,000 leases on 2,500 acres in Gonzales, Texas
- The Group's Net Working interests are 2,000 Mbbl of oil and 1,000 MMcf of gas
- Base case oil sold is assumed at \$55 per barrel and gas at \$3.20 per thousand cubic feet
- Oil and gas pricing held constant to depletion in 2031

The total proved future Net Revenue interest after costs as at 1 December 2017:

Undiscounted     \$62m

Based on the information provided in the CPR, the Directors have determined that the Company's oil properties have not been impaired as at the 31 December 2017.

##### ***Recoverability of non-producing mineral leases and capitalised drilling costs & equipment***

Management tests annually whether non-producing mineral leases have future economic value in accordance with the accounting policies. This assessment takes into consideration the likely commerciality of the asset, the future revenues and costs pertaining and the discount rates to be applied for the purposes of deriving a recoverable value. In the event that a lease does not represent an economic drilling target and results indicate that there is no additional upside, the mineral lease and drilling costs will be impaired. The Directors have reviewed the estimated value of the licences and have concluded that an impairment charge of \$0 should be recognised.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)*****Estimated useful lives of property, plant and equipment***

Useful lives are based on industry standards and historical experience which are subjected to yearly evaluation. For producing properties, the Group's considerations include the lease period of the agreement, estimated levels of proven and probable reserves and the estimated future cost of developing and extracting those reserves. Management review property, plant and equipment at each Statement of Financial Position date to determine whether there are any indications of impairment. If any such indication exists, an estimate of the recoverable amount is performed, and an impairment loss is recognised to the extent that the carrying amount exceeds the recoverable amount. The Directors have reviewed the estimated value of each property and do not consider any further impairment to be necessary.

**5. SEGMENTAL INFORMATION**

The Group operates in two geographical areas, the United Kingdom and the United States of America. Activities in the UK are mainly administrative in nature whilst the activities in the USA relate to exploration and production from oil and gas wells. The reports reviewed by the Board of Directors that are used to make strategic decisions are based on these geographical segments.

**Year ended 31 December 2017**

|                         | <b>USA</b> | <b>UK</b> | <b>Intra-segment<br/>balances</b> | <b>Total</b> |
|-------------------------|------------|-----------|-----------------------------------|--------------|
|                         | \$         | \$        | \$                                | \$           |
| Operating loss          | (39,073)   | (669,222) | -                                 | (708,295)    |
| Depreciation            | 577        | 2,344     | -                                 | 2,921        |
| Capital expenditure     | 61,016     | 4,049     | -                                 | 65,065       |
| Development expenditure | 1,908,751  | -         | -                                 | 1,908,751    |
| Total assets            | 6,612,798  | 1,214,162 | (793,960)                         | 7,033,000    |
| Total liabilities       | 6,114,127  | 982,599   | (793,960)                         | 6,302,766    |

**Period ended 31 December 2016**

|                         | <b>USA</b> | <b>UK</b> | <b>Intra-segment<br/>balances</b> | <b>Total</b> |
|-------------------------|------------|-----------|-----------------------------------|--------------|
|                         | \$         | \$        | \$                                | \$           |
| Operating loss          | (17,599)   | -         | -                                 | (17,599)     |
| Capital expenditure     | 1,160,508  | -         | -                                 | 1,160,508    |
| Development expenditure | -          | -         | -                                 | -            |
| Total assets            | 1,209,524  | -         | -                                 | 1,209,524    |
| Total liabilities       | 1,227,227  | -         | -                                 | 1,227,227    |

**5. SEGMENTAL INFORMATION (continued)**

A reconciliation of the operating loss to loss before taxation is provided as follows:

|  | Year ended<br>31 December<br>2017<br>\$ | Period ended<br>31 December<br>2016<br>Restated<br>\$ |
|--|---|---|
| Operating Loss for reportable segments | (708,295)                               | (17,599)  |
| Finance income net of finance costs    | 555,026                                 | (239)   |
|  | <hr/>                                   | <hr/>   |
| Loss before tax                        | (153,269)                               | (17,838)  |
|  | <hr/> <hr/>                             | <hr/> <hr/>   |

The amounts provided to the Board of Directors with respect to total assets are measured in a manner consistent with that of the Financial Statements. These assets are allocated based on the operations of the segment and physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

|  | Year ended<br>31 December<br>2017<br>\$ | Period ended<br>31 December<br>2016<br>\$ |
|--|---|---|
| Segmental assets for reportable segments         | 7,033,000                               | 1,209,524                                 |
| Total assets per Statement of Financial Position | 7,033,000                               | 1,209,524                                 |
|  | <hr/> <hr/>                             | <hr/> <hr/>                               |

**Information about major customers/operating partners**

Nobel USA's ownership interests are 50% Working Interest ("WI"). Nobel has three industry partners in the project which own the remaining 50% Net Working Interest: Sunrise Energy LLC ("Sunrise"), Av-Tech Oil & Gas LLC ("Av-Tech") and Landex Petroleum LLC ("Landex"). Av-Tech provides valuable experience to Nobel USA, having successfully drilled some 250 wells and produced wells drilled throughout the subject area. Sunrise is an industry partner and derived its 25% working interest out of an assignment from the original 75% WI acquired by Nobel USA in November 2016 and is obligated under all of Nobel USA's original acquisition of lease terms, which include the Av-Tech and Landex carry provisions on the drilling and completion of the first two horizontal wells.

**6. EXPENSES BY NATURE**

| <b>Group</b>                             | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|
|  | <b>\$</b>   | <b>\$</b>   |
| Legal, professional and compliance costs | 649,031     | 12,700      |
| Depreciation                             | 2,921       | -           |
| Other costs                              | 56,343      | 4,899       |
|  | <hr/>       | <hr/>       |
| Total administrative expenses            | 708,295     | 17,599      |
|  | <hr/> <hr/> | <hr/> <hr/> |

**7. AUDITOR REMUNERATION****Services provided by the Company's auditor and its associates**

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor:

|   | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
|   | <b>\$</b>   | <b>\$</b>   |
| Fees payable to the Company's auditor for the audit of the Parent Company and consolidated Financial Statements | 27,855      | 9,268       |
| Fees payable to the Company's auditor for other services:<br>- in relation to transaction services              | 12,500      | -           |
|   | <hr/> <hr/> | <hr/> <hr/> |

**8. STAFF COSTS**

The Group and Company did not incur any staff costs (including Directors) during the year (2016 \$Nil).

The Group does not employ any full time employees at its US subsidiaries. Instead the Group uses specialist service providers to fulfil its well drilling and land management requirements.

**Directors' Emoluments**

The average monthly number of staff, including the Directors, during the financial year was as follows:

|           | <b>Group</b>   |             |
|-----------|----------------|-------------|
|           | <b>2017</b>    | <b>2016</b> |
|           | <b>No.</b>     | <b>No.</b>  |
| Directors | 4              | 2           |
|           | <hr/> <hr/>    | <hr/> <hr/> |
|           | <b>Company</b> |             |
|           | <b>2017</b>    | <b>2016</b> |
|           | <b>No.</b>     | <b>No.</b>  |
| Directors | 4              | 2           |
|           | <hr/> <hr/>    | <hr/> <hr/> |

**9. INCOME TAX****Tax charge for the period**

The tax charge for the year is \$Nil (2016: \$Nil).

**Factors affecting the tax charge for the period**

The tax charge for each year is explained below:

|  | <b>2017</b>       | <b>2016</b>       |
|--|-------------------|-------------------|
|  | <b>\$</b>         | <b>\$</b>         |
| Loss for the year before taxation                                | <u>(153,269)</u>  | <u>(17,838)</u>   |
| UK Loss before tax multiplied by the UK tax rate 19% (2016: 20%) | (29,121)          | -                 |
|  | -                 | (3,568)           |
| Tax effect of:<br>Unutilised tax losses carried forward          | 29,121            | 3,568             |
|  | <u>          </u> | <u>          </u> |
| Income tax charge  | -                 | -                 |
|  | <u>          </u> | <u>          </u> |

The Group has UK tax losses of approximately \$29,121 (2016: \$8,000) to carry forward against future profits.

**10. FINANCE INCOME AND FINANCE COSTS**

| Group                                  | 2017           | 2016         |
|--|----------------|--------------|
|  | \$             | \$           |
| Loan adjustment for effective interest | <u>561,849</u> | =            |
| Bank charges and interest expense      | <u>(6,823)</u> | <u>(239)</u> |

**11. EARNINGS PER SHARE**

The calculation of basic and diluted earnings per share is based on the following loss and number of shares:

|                                  | Year ended<br>31 December 2017<br>\$ | Period ended<br>31 December 2016<br>\$ |
|----------------------------------|--------------------------------------|--|
| Loss for the year                | 153,269                              | 17,838                                 |
| Weighted average shares in issue | 44,295,000                           | 135                                    |
| Basic earnings per share (cents) | (0.003)                              | (132.133)                              |

There is no difference between the basic and diluted earnings per share as the effect would be to decrease earnings per share.

## 12. PROPERTY, PLANT AND EQUIPMENT

## Group

| <b>Cost</b>  | <b>Petroleum<br/>(Mineral<br/>Leases)<br/>\$</b> | <b>Office<br/>equipment<br/>\$</b> | <b>Total<br/>\$</b> |
|--|--|------------------------------------|---------------------|
| At incorporation                                   | -  | -                                  | -                   |
| Additions  | 1,158,199  | 2,309                              | 1,160,508           |
|  | <hr/>  | <hr/>                              | <hr/>               |
| At 31 December 2016                                | 1,158,199  | 2,309                              | 1,160,508           |
|  | <hr/>  | <hr/>                              | <hr/>               |
| Additions  | 61,016   | 4,049                              | 65,065              |
| Acquired in reverse merger                         | -  | 4,871                              | 4,871               |
| Currency translation                               | -  | 454                                | 454                 |
|  | <hr/>  | <hr/>                              | <hr/>               |
| At 31 December 2017                                | 1,219,215  | 11,683                             | 1,230,898           |
|  | <hr/>  | <hr/>                              | <hr/>               |
| <b>Accumulated Depreciation and<br/>Impairment</b> |  |                                    |                     |
| At incorporation                                   | -  | -                                  | -                   |
| Charge for the period                              | -  | -                                  | -                   |
|  | <hr/>  | <hr/>                              | <hr/>               |
| At 31 December 2016                                | -  | -                                  | -                   |
|  | <hr/>  | <hr/>                              | <hr/>               |
| Acquired in reverse merger                         | -  | 1,218                              | 1,218               |
| Charge for the period                              | -  | 2,921                              | 2,921               |
| Currency translation                               | -  | 112                                | 112                 |
|  | <hr/>  | <hr/>                              | <hr/>               |
| At 31 December 2017                                | -  | 4,251                              | 4,251               |
|  | <hr/>  | <hr/>                              | <hr/>               |
| <b>Net Book Amount</b>                             |  |                                    |                     |
| At 31 December 2016                                | 1,158,199  | 2,309                              | 1,160,508           |
|  | <hr/> <hr/>                                      | <hr/> <hr/>                        | <hr/> <hr/>         |
| At 31 December 2017                                | 1,219,215  | 7,432                              | 1,226,647           |
|  | <hr/> <hr/>                                      | <hr/> <hr/>                        | <hr/> <hr/>         |

Office equipment depreciation expense of \$2,921 (2016: \$Nil) has been charged in administrative expenses.

## 12. PROPERTY, PLANT AND EQUIPMENT (continued)

## Company

| <b>Cost</b>                     | <b>Office<br/>equipment<br/>\$</b> |
|---------------------------------|------------------------------------|
| At incorporation                | -                                  |
| Additions                       | 4,871                              |
|                                 | <hr/>                              |
| At 31 December 2016             | 4,871                              |
|                                 | <hr/>                              |
| Additions                       | 4,049                              |
| Currency translation            | 454                                |
|                                 | <hr/>                              |
| At 31 December 2017             | 9,374                              |
|                                 | <hr/>                              |
| <b>Accumulated Depreciation</b> |                                    |
| At incorporation                | -                                  |
| Charge for the period           | 1,218                              |
|                                 | <hr/>                              |
| At 31 December 2016             | 1,218                              |
|                                 | <hr/>                              |
| Charge for the period           | 2,344                              |
| Currency translation            | 112                                |
|                                 | <hr/>                              |
| At 31 December 2017             | 3,674                              |
|                                 | <hr/>                              |
| <b>Net Book Amount</b>          |                                    |
| At 31 December 2016             | 3,653                              |
|                                 | <hr/> <hr/>                        |
| At 31 December 2017             | 5,700                              |
|                                 | <hr/> <hr/>                        |

Office equipment depreciation expense of \$2,344 (2016: \$1,218) has been charged in administrative expenses.

## 13. INTANGIBLE ASSETS

| <b>Cost</b>                                      | <b>Drilling costs<br/>\$</b> | <b>Loan<br/>arrangement<br/>fees<br/>\$</b> | <b>Total<br/>\$</b> |
|--|------------------------------|---|---------------------|
| At incorporation                                 | -                            | -   | -                   |
| At 31 December 2016                              | -                            | -   | -                   |
| Additions  | 2,978,956                    | 270,339                                     | 3,249,295           |
| Less: Participants share of<br>development costs | (1,070,205)                  | -   | (1,070,205)         |
| At 31 December 2017                              | 1,908,751                    | 270,339                                     | 2,179,090           |
| <b>Amortisation</b>                              |                              |   |                     |
| At incorporation                                 | -                            | -   | -                   |
| At 31 December 2016                              | -                            | -   | -                   |
| Amortisation charge for the period               | -                            | 5,557                                       | 5,557               |
| At 31 December 2017                              | -                            | 5,557                                       | 5,557               |
| <b>Net Book Amount</b>                           |                              |   |                     |
| At 31 December 2016                              | -                            | -   | -                   |
| At 31 December 2017                              | 1,908,751                    | 264,782                                     | 2,173,533           |

Drilling costs represents acquired intangible assets with an indefinite useful life and are tested annually for impairment. Drilling costs are capitalised on a well by well basis if the results indicate the existence of a commercially viable level of reserves.

**Impairment review – Property, plant and equipment and Intangible assets**

The Directors have undertaken a review to assess whether circumstances exist which could indicate the existence of impairment as follows:

- The Group no longer has title to mineral leases.
- A decision has been taken by the Board to discontinue exploration due to the absence of a commercial level of reserves.
- Sufficient data exists to indicate that the costs incurred will not be fully recovered from future development and participation.

Following their assessment, the Directors recognised that no impairment charge is necessary.

## 14. INVESTMENTS

## Investments in subsidiaries

|                              | 2017<br>\$  | 2016<br>\$  |
|------------------------------|-------------|-------------|
| <b>Company</b>               |             |             |
| Shares in group undertakings |             |             |
| At 1 January                 | -           | -           |
| Additions                    | 6,592,040   | -           |
| Exchange movements           | 435,060     | -           |
|                              | <hr/>       | <hr/>       |
| At 31 December               | 7,027,100   | -           |
|                              | <hr/> <hr/> | <hr/> <hr/> |

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid.

Under an agreement dated 17 May 2017, between the Company (as the Purchaser) and Nobel Petroleum Ireland Limited (as the Seller), the Company acquired from the Seller all of the issued capital of Nobel Petroleum UK Limited, being 100 fully paid ordinary shares, in consideration of the issue of 3,400,000 Ordinary Shares and the issue of a mandatory convertible note to the Seller, which is convertible into up to 19,000,000 Ordinary Shares. A further 41,600,000 Ordinary shares were issued under the acquisition agreement, to settle sums owed to the subscribers for advisory, introduction, broking and financing services to the Group. In addition, 10,000,000 ordinary shares were issued in consideration for professional fees directly associated with the acquisition.

Nobel Petroleum Ireland Limited was issued with a mandatory convertible note of principal amount £4.75M as part of the consideration for the sale of Nobel Petroleum UK Limited. This note is convertible at any time into 19,000,000 Ordinary Shares, calculated at the conversion price of £0.25 per Ordinary Share. The conversion can be exercised at any time in respect of up to such number of Ordinary Shares that does not cause the Company to be in breach of its obligations under Listing Rules 14.2.2 or 14.3.2 to ensure that at least 25% of the Company's Ordinary Shares are in public hands or triggering an obligation under section 85 CA 2006 to publish a prospectus, as more particularly described in such provisions. If the Note is not fully converted, the Company is required to issue a replacement note in respect of the balance of the Principal amount, which shall be convertible into the relevant balance of Ordinary Shares when those terms so allow. The Note contains certain covenants applying to the Company. It also contains events of default following which the Company would be required to redeem the Note. The Note is transferrable in whole or in part.

## Principal subsidiaries

| Name                       | Country of incorporation and residence | Nature of business | Registered capital | Proportion of equity shares held by Company |
|----------------------------|--|--------------------|--------------------|---|
| Nobel Petroleum UK Limited | UK                                     | Holding            | Ordinary<br>£100   | 100%  |
| Nobel Petroleum LLC        | USA/Louisiana                          | Oil & Gas          | Ordinary           | 100% via Nobel UK                           |
| Nobel Petroleum USA, Inc.  | USA/Delaware                           | Oil & Gas          | Ordinary           | 100% via Nobel UK                           |

These subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertaking held directly by the Parent Company does not differ from the proportion of ordinary shares held.

## 15. TRADE AND OTHER RECEIVABLES

|   | Group            |               | Company       |            |
|---|------------------|---------------|---------------|------------|
|   | 2017<br>\$       | 2016<br>\$    | 2017<br>\$    | 2016<br>\$ |
| Amounts due from Development participants | 1,070,205        | -             | -             | -          |
| Other receivables                         | 467,243          | 28,112        | 13,514        | -          |
|   | <u>1,537,448</u> | <u>28,112</u> | <u>13,514</u> | <u>-</u>   |

The fair value of all receivables is the same as their carrying values stated above.

Receivables includes \$1,070,205 (2016: \$Nil) of recoverable expenses with regard to land lease and drilling expensed, both in respect of the initial land leases for which operating partner Sunrise is contractually obligated in regard to the interests it acquired, together with further amounts paid for additional Land leasing within the Area of Mutual Interest ("AMI") for which the parties to the joint operating agreement ("JOA") are liable in their respective proportional working interests. In the event of non-payments, such interests are forfeited to Nobel as the primary default penalty provision within the JOA without further financial obligation, other than the Sunrise obligations under which in addition to the primary default provisions that prevail under the JOA with regard to payment for drilling, completion and land leases, a contractual liability for payment in regard to its initial assignment acquisition remains.

**Group**

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

|           | 2017<br>\$       | 2016<br>\$    |
|-----------|------------------|---------------|
| UK Pounds | 13,514           | -             |
| US Dollar | 1,523,934        | 28,112        |
|           | <u>1,537,448</u> | <u>28,112</u> |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The impact of a 10% favourable movement in the US Dollar to UK Pound would increase the carrying value of other receivables denominated in UK Pounds by \$1,351. The impact of a 10% adverse movement in the US Dollar to UK Pound would reduce the carrying value of other receivables denominated in UK Pounds by \$1,351.

**Company**

The carrying amounts of the Company's trade and other receivables are denominated in UK Pound sterling. The carrying amounts of the Company's US subsidiary companies are denominated in US Dollars.

**16. SHORT TERM INVESTMENTS**

|                        | Group            |            | Company          |                |
|------------------------|------------------|------------|------------------|----------------|
|                        | 2017<br>\$       | 2016<br>\$ | 2017<br>\$       | 2016<br>\$     |
| Short term investments | 2,073,299        | -          | 1,194,948        | 347,904        |
|                        | <u>2,073,299</u> | <u>-</u>   | <u>1,194,948</u> | <u>347,904</u> |

Short term investments includes \$1,194,948 of cash being held by FHF Corporate Finance Limited on behalf of Pennpetro and \$878,351 of cash being held by brokers Monsas on behalf of Nobel US. These amounts are held in Pounds Sterling.

**Group**

The carrying amounts of the Group's short term investments are denominated in the following currencies:

|           | 2017<br>\$       | 2016<br>\$     |
|-----------|------------------|----------------|
| UK Pounds | 2,073,299        | 347,904        |
| US Dollar | -                | -              |
|           | <u>2,073,299</u> | <u>347,904</u> |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The impact of a 10% favourable movement in the US Dollar to UK Pound would increase the carrying value of short term investments denominated in UK Pounds by \$207,329. The impact of a 10% adverse movement in the US Dollar to UK Pound would reduce the carrying value of short term investments denominated in UK Pounds by \$207,329.

**Company**

The carrying amounts of the Company's short term investments are denominated in UK Pound sterling.

**17. CASH AND CASH EQUIVALENTS**

|              | Group         |               | Company    |            |
|--------------|---------------|---------------|------------|------------|
|              | 2017<br>\$    | 2016<br>\$    | 2017<br>\$ | 2016<br>\$ |
| Cash at bank | 22,073        | 20,904        | -          | -          |
|              | <u>22,073</u> | <u>20,904</u> | <u>-</u>   | <u>-</u>   |

At 31 December 2017, the Group held cash of \$22,073 (2016: \$20,904) in banks with a Fitch credit rating of A (Stable).

## 18. SHARE CAPITAL AND PREMIUM

| Group   | Number of shares  | Ordinary shares |                | Share premium  |                | Total            |
|---|-------------------|-----------------|----------------|----------------|----------------|------------------|
|   |                   | value<br>£      | value<br>\$    | value<br>£     | value<br>\$    |                  |
| On incorporation  | -                 | -               | -              | -              | -              | -                |
| Shares issued for cash  | 8,600,000         | 86,000          | 116,590        | 224,000        | 303,677        | 420,267          |
| <b>At 31 December 2016</b>                                      | <b>8,600,000</b>  | <b>86,000</b>   | <b>116,590</b> | <b>224,000</b> | <b>303,677</b> | <b>420,267</b>   |
| Shares issued for cash  | 2,300,000         | 23,000          | 29,799         | 257,000        | 332,969        | 362,768          |
| Shares issued as consideration for reverse merger               | 45,000,000        | 450,000         | 570,465        | -              | -              | 570,465          |
| Shares issued as consideration for Acquisition and Listing fees | 15,000,000        | 150,000         | 191,550        | -              | -              | 191,550          |
| Issue costs   | -                 | -               | -              | (8,600)        | (11,142)       | (11,142)         |
| <b>At 31 December 2017</b>                                      | <b>70,900,000</b> | <b>709,000</b>  | <b>908,404</b> | <b>472,400</b> | <b>625,504</b> | <b>1,533,908</b> |

Each ordinary share has a nominal value of 1 pence per share.

**Share options and warrants**

There were no options outstanding or exercisable at the year end. (2016: Nil).

A convertible loan note which was issued by Pennpetro to Nobel Ireland in the Reverse merger of Nobel UK, may be converted into 19 million ordinary shares if certain conditions are met, at a fixed subscription price of 25 pence.

## 19. BORROWINGS

|                      | Group             |                   | Company           |                   |
|----------------------|-------------------|-------------------|-------------------|-------------------|
|                      | 2017              | 2016              | 2017              | 2016              |
|                      | \$                | \$                | \$                | \$                |
| <b>Non-current</b>   |                   |                   |                   |                   |
| Corporate borrowings | 6,092,657         | 1,185,000         | -                 | -                 |
|                      | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

As at 31 December 2017 the Group had a \$5 million Loan Note arrangement with Petroquest Energy Limited and subject to certain conditions being met, the maturity date is 30 December 2019. The balance drawn against this loan note as at 31 December 2017 was \$3,951,706 (2016: \$1,185,000).

On 31 October 2017, Nobel Petroleum LLC completed a Loan Agreement of £2,000,000 with Pennpetro Bonds II Limited at an annual interest rate of 8% which is due for repayment on 31 October 2020. The balance outstanding on the loan as at 31 December 2017 was \$2,702,800 (2016: \$Nil). The loan liability was transferred to Nobel Petroleum USA, Inc. prior to the year end. Arrangement costs of \$270,339 have been capitalized in Intangible assets and are being charged to the Statement of Comprehensive Income over the life of the Loan.

The credit and borrowing facility are secured against all of the petroleum leases and operating equipment owned by the Group, together with sales contracts.

The fair value of borrowings equals their carrying amount. Borrowings are denominated in US dollars.

|                          | Group             |                   | Company           |                   |
|--------------------------|-------------------|-------------------|-------------------|-------------------|
|                          | 2017              | 2016              | 2017              | 2016              |
|                          | \$                | \$                | \$                | \$                |
| Expiring beyond one year | 6,092,657         | 1,185,000         | -                 | -                 |
|                          | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

**Group**

The carrying amounts of the Group's borrowings are denominated in the following currencies:

|           | 2017              | 2016              |
|-----------|-------------------|-------------------|
|           | \$                | \$                |
| UK Pounds | 2,702,800         | -                 |
| US Dollar | 3,389,857         | 1,185,000         |
|           | <u>          </u> | <u>          </u> |
|           | 6,092,657         | 1,185,000         |
|           | <u>          </u> | <u>          </u> |

The impact of a 10% favourable movement in the US Dollar to UK Pound would increase the carrying value of borrowings denominated in UK Pounds by \$270,280. The impact of a 10% adverse movement in the US Dollar to UK Pound would reduce the carrying value of other receivables denominated in UK Pounds by \$270,280.

The Dollar loan is the discounted value. The undiscounted value is \$3,951,706 and \$6,654,506 in total.

**Company**

The company does not carry any borrowings. The carrying amounts of the Company's US subsidiary companies are denominated in US Dollars and UK sterling.

## 20. TRADE AND OTHER PAYABLES

| Current                            | Group          |               | Company        |              |
|------------------------------------|----------------|---------------|----------------|--------------|
|                                    | 2017           | 2016          | 2017           | 2016         |
|                                    | \$             | \$            | \$             | \$           |
| Trade and other payables           | 4,065          | -             | -              | -            |
| Amounts owed to group undertakings | -              | -             | 793,960        | -            |
| Accrued expenses                   | 206,044        | 42,227        | 188,638        | 9,268        |
|                                    | <u>210,109</u> | <u>42,227</u> | <u>982,598</u> | <u>9,268</u> |

**Group**

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

|           | 2017           | 2016          |
|-----------|----------------|---------------|
|           | \$             | \$            |
| UK Pounds | 188,638        | -             |
| US Dollar | 21,471         | 42,227        |
|           | <u>210,109</u> | <u>42,227</u> |

The impact of a 10% favourable movement in the US Dollar to UK Pound would increase the carrying value of trade and other payables denominated in UK Pounds by \$18,864. The impact of a 10% adverse movement in the US Dollar to UK Pound would reduce the carrying value of trade and other payables denominated in UK Pounds by \$18,864.

**Company**

The carrying amounts of the Company's trade and other payables are denominated in UK Pound sterling. The carrying amounts of the Company's US subsidiary companies are denominated in US Dollars.

**21. FINANCIAL INSTRUMENTS BY CATEGORY**

|   | Group                       |                             | Company                     |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | 2017                        | 2016                        | 2017                        | 2016                        |
|   | \$                          | \$                          | \$                          | \$                          |
| <b>Assets as per Statement of Financial Position</b>              |                             |                             |                             |                             |
| <b>Loans and receivables:</b>                                     |                             |                             |                             |                             |
| Trade and other receivables<br>(excluding prepayments)            | 1,537,448                   | 28,112                      | 13,514                      | -                           |
| Short term investments  | 2,073,299                   | -                           | 1,194,948                   | 347,904                     |
| Cash and cash equivalents   | 22,073                      | 20,904                      | -                           | -                           |
|   | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
|   | 3,632,820                   | 49,016                      | 1,208,462                   | 347,904                     |
|   | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| <b>Liabilities per Statement of Financial Position</b>            |                             |                             |                             |                             |
| <b>Financial liabilities at amortised cost:</b>                   |                             |                             |                             |                             |
| Borrowings  | 6,092,657                   | 1,185,000                   | -                           | -                           |
| Trade and other payables<br>(excluding non-financial liabilities) | 210,109                     | 42,227                      | 982,598                     | 9,268                       |
|   | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
|   | 6,302,766                   | 1,227,227                   | 982,598                     | 9,268                       |
|   | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |

**22. TREASURY POLICY**

The Company and Group operate informal treasury policies which include ongoing assessments of interest rate management and borrowing policy. The Board approves all decisions on treasury policy.

The Group has financed its activities by raising funds through borrowings set out in Note 19 above. There are no material differences between the book value and fair value of the financial assets.

**23. CAPITAL MANAGEMENT POLICIES**

The Group considers its equity to be its capital.

The Group and Company's capital management objectives are:

- to ensure compliance with borrowing covenants;
- to ensure the Group's and Company's ability to continue as a going concern; and
- to provide an adequate return to shareholders.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debts.

The Group will continue making interest payments in accordance with financial and non-financial loan covenants.

## 24. CAPITAL COMMITMENTS

The Group and Company set the amount of capital in proportion to its overall financing structure and manage their capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

As at 31 December 2017 and 2016, the Group had no capital commitments for drilling and equipment costs contracted but not provided for.

## 25. RELATED PARTY TRANSACTIONS

### Transactions with Directors

An amount of £10,000 was advanced to Thomas Evans during the Financial year and remained outstanding as at 31 December 2017. The amount is secured against shares held by him in the Company and is due for repayment within 12 months.

Thomas Evans is a Director of Pennpetro Bonds II Limited, which provided a £2m loan facility to the Group during the current reporting period. In his capacity as a Director of Pennpetro Bonds II Limited, Mr. Evans received director's fees of £8,000 from that Company.

Thomas Evans is a Director of the following companies which are considered as related parties:

- Pennpetro Bonds II Limited – the provider of a £2m loan facility to Nobel Petroleum USA., Inc.
- FHF Securities (A'Asia) Limited – a shareholder in Pennpetro with a 7.05% shareholding in the Company.
- Nobel Petroleum UK Limited which is a 100% subsidiary of Pennpetro.
- Nobel Petroleum LLC, which is a 100% directly owned subsidiary of Nobel Petroleum UK Limited.
- Nobel Petroleum USA, Inc, which is a 100% owned subsidiary of Nobel Petroleum UK Limited.

### Transactions with Group undertakings

During the year ended 31 December 2017, Pennpetro provided loans to its wholly owned subsidiary Nobel Petroleum UK Limited of \$489,870 (2016: \$Nil) and received loans from Nobel Petroleum UK Limited of \$1,283,830 (2016: \$Nil). The amount due to Nobel Petroleum UK limited as at 31 December 2017 was \$793,960.

All Group transactions were eliminated on consolidation

## 26. ULTIMATE CONTROLLING PARTY

As at the Statement of Financial Position date, the Directors do not consider there is an ultimate controlling party.

## 27. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period.