Pennpetro Energy PLC - PPP Results for the 6 months ended 30 June 2018
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28 September 2018

Pennpetro Energy PLC
("Pennpetro" or the "Group")
Results for the 6 months ended 30 June 2018

London, 28 September 2018 - Pennpetro, an independent oil and gas company focusing on production in the Gonzales Oil Field in Texas, USA, today announces its Results for the six months ended 30 June 2018.

Chairman's Statement

I am pleased to advise that the Company has made steady progress during the first half of the financial year in bringing the first well COG#1-H into production, and assessing the potential of the Buda formation in addition to the Austin Chalk.

During the 6 months ended 30 June 2018 the Company has successfully completed construction of the tankerage farm consisting of three water disposal tanks and four oil recovery tanks with pipeline connections to the adjacent located wellhead (COG#1-H). This includes a newly installed jet pumping unit and electrical hook-up to the Gonzales power systems.

The testing of this infrastructure is ongoing and test oil is being delivered into the tanks and the salt water is being disposed by a daily tanker pickup from site.

The Operator pursuant to the State of Texas petroleum reporting requirements has formally advised the Texas Railroad Commission that the COG#1-H is completed as a producer initially to the Buda formation, with initial Buda oil having been delivered into the tanks.

Testing of the Austin Chalk horizontal formation, which delivered oil over the shakers during drilling, will be initiated once a full longer-term test of the Buda has been finalised. The Buda limestone reserves were not included in our evaluation of our reserves or in the Competent Persons Report (CPR) that accompanied the prospectus. We are aware that the Buda has been, and is currently, a successful target for vertical completions in the Gonzales area. Generally, the Buda limestone formation has an EUR of between 140,000 - 175,000 bbls, and, having been proved as a flowing production formation within the Company's acreage, can now be included within the Company's future technical evaluations and further vertical infill drilling locations on reduced spacing parameters.

As previously reported, Nobel Petroleum UK Limited, the Company's wholly owned subsidiary, through its US-based subsidiaries owns 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 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 MBBL of oil and 1,000 MMcf of gas.

Also, as previously reported in the December 2017 Accounts and Reports, 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.

The period 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 will continue to build upon what has been a successful and busy first year for the Group.

Keith Edelman
Non-Executive Director, Chairman

28 September 2018

Executive Director's Statement

As prior reported we have begun completion operations which under the reporting period entailed the construction of a new tankerage farm and the Operator is pump testing to remove accumulated water from the reservoirs, while at the same time recovering oil as the oil-cut progressively increases. To date test oil has been sold in limited quantities, the most recent sale being at a premium to WTI. Under the terms of our agreements with the other non-participating parties, Av-Tech Oil & Gas LLC, Landex Petroleum LLC and Sunrise Energy LLC, all parties now contribute towards their proportionate share of ongoing expenses with regard to COG#1-H.

Our operator has now filed 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. In addition, the Operator has also filed the requisite Divisional Orders necessary.

Our land management team has continued to acquire contiguous acreage with our total position now approaching 3,000 acres. We also agreed with the Gonzales County to reposition certain of our petroleum leases by amending certain boundaries and at the same time we have been able to extend our drilling time-lines for those particular leases by another initial twelve months. This re-programming has enabled the revisions that will be necessary for the 3-D seismic operations over which we are in current discussions. We are also in discussions with proposed two additions to our technical staff in the form of an additional geologist and a geophysicist to assist in these operations and geo-drilling requirements of the next horizontal well which is now designated as COG#3-H. Permitting for this well is ongoing and is expected to be completed within the next quarter.

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. In furtherance of this agenda, we have incorporated a further Delaware entity, Pennpetro USA, Inc., with a mandate to seek out additional conventional producing petroleum assets only, possessing the ability to be upscaled with the adoption of unconventional horizontal drilling techniques. A number of opportunities are being examined which will be fully reported on when progressed.

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, whilst 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, including 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.

EOG Resources has now also turned its full attention to the Austin Chalk formations both in Texas and its continuance into Louisiana with recent acquisitions by Conoco-Phillips, Marathon Oil Corp, alongside the recent formation of Magnolia by TPG Pace Energy and EnerVest to specifically focus on the Austin Chalk, as the Austin Chalk has a higher oil content then Permian drilled completions. Gonzales County sits right in the middle of the Austin Chalk trend.

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.

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.

Oil Price

West Texas Intermediate ("WTI") has continued its strength throughout the period under review averaging US$68.01/bbl. The value of WTI as at 27 September 2018 was US$72.27/bbl (source: Bloomberg Markets).

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. To this we can now add the unexpected bonus of the Buda Limestone formation reserves which we can now confidently state will increase our overall proved oil reserves, albeit we await a formal new CPR to be prepared in this regard.

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 the remainder of 2018, our main Gonzales County 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 period under review and also to our shareholders for their continued support.

Thomas Evans
Executive Director

28 September 2018

Operational Review

Summary

As previously reported, Nobel Petroleum USA, Inc., has operational teams on the ground working from its offices in the City of Gonzales. During the period under review, one new horizontal well in which the Group has an interest was confirmed by the Operator to the Texas Railroad Commission as being completed as an initial producer to the Buda formation. Further to this, the Operator has also filed Divisional Orders pursuant to the delivery of production interests. Additionally, Nobel USA commenced the initiation and construction of the tankerage facilities and laid pipeline to the COG#1-H wellhead, implementing the pumping of liquids from the reservoirs. The Group is currently in discussions to initiate an encompassing 3D seismic survey, during the latter part of 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 additional 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 chalks, 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 also continued delineation of the South Texas Austin Chalk, completing five wells in the second quarter 2018.

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:

- Notable wells in the second quarter included the Sandies Creek A-F 1H-6H, a six-well package in DeWitt County, which is immediately to the South of Gonzales, with an average treated lateral length of 6,500 feet per well and average 30-day initial production rates per well of 3,205 Boed, or 2,320 Bopd, 450 Bpd of NGLs and 2.6 MMcfd of natural gas.

- In Karnes County, TX, EOG completed the Hickok 5H-8H, a four-well package with an average treated lateral length of 5,000 feet per well and average 30-day initial production rates per well of 2,685 Boed, or 2,020 Bopd, 340 Bpd of NGLs and 2.0 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 independent 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 whilst it has been a producer in the acreage surrounding our leasehold interests it could not be included within our proven resource categorization as no completions had occurred within our acreage. The Buda 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.

With the successful completion of the COG#1-H well, as stated above, initial test oil flowing into tanks has been from the Buda formation thereby advancing the Groups proved reserve allocations as it has now been proved through the drill-bit that the underlying Buda formation attributable to the Groups petroleum lease holdings can be developed as an additional reservoir.

Thomas Evans
Executive Director

28 September 2018

Enquiries

Pennpetro Energy Plc
88 Whitfield Street
First Floor
London
W1T 4EZ

tme@pennpetroenergy.co.uk

Instinctif

David Simonson	david.simonson@instinctif.com	+44 (0)20 7457 2020
George Yeomans	george.yeomans@instinctif.com	+44 (0)20 7457 2020

NOTES TO EDITORS

Pennpetro Energy is an independent oil and gas company focusing on production in the Gonzales Oil Field in Texas, USA. Shares in the company were admitted to the Official List of the London Stock Exchange by way of a Standard Listing on 21 December 2017.

Further information on the Company can be found at www.pennpetroenergy.co.uk

IMPORTANT NOTICE - FORWARD-LOOKING STATEMENTS

This announcement may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts and involve predictions. Forward-looking statements may and often do differ materially from actual results. In addition, even if results or developments are consistent with the forward-looking statements contained in this announcement, those results or developments may not be indicative of results or developments in subsequent periods. Any forward-looking statements reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's business, results of operations, financial position, liquidity, prospects, growth or strategies and the industry in which it operates. Forward-looking statements speak only as of the date they are made and cannot be relied upon as a guide to future performance.

Strategic report and business review

To the members of Pennpetro Energy plc

Cautionary statement

This business review has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

The business review contains certain forward looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

This business review has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Pennpetro Energy plc and its subsidiary undertakings when viewed as a whole.

The Group's business model

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.

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

Undiscounted $62,000,000

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 30 June 2018.

Results for the 2018 interim financial period

A summary of the key financial results is set out in the table below:

	30.6.2018 $'000
Revenue	-
Operating expenses	(321)
Operating loss	**(321)**
Finance costs	(136)
Loss before tax	**(457)**
Taxation	-
Loss for the period	**(457)**

Interest

The net interest cost for the Group for the period was $0.1m (2017: $nil).

Loss before tax

Loss before tax for the period was $0.5m (2017: $0.2m).

Taxation

Taxation charge was $nil for the period (2017: $nil).

Earnings per share

Basic and diluted earnings per share for the period were 0.64c loss (2017: 0.3c loss).

Financial position

The Group's balance sheet as at 30 June 2018 can be summarised as set out in the table below:

	Assets £'m $'000	**Liabilities £'m $'000**	**Net assets £'m $'000**
Non-current assets	3,864	-	3,864

Current assets and liabilities	2,521	(107)	2,414
Loans and provisions	-	(6,021)	(6,021)
Total as at 30 June 2018	**6,385**	**(6,128)**	**257**
Total as at 31 December 2017	7,033	(6,303)	730

Cash flow

Net cash inflow for 2018 was $nil (2017: $nil).

Condensed Consolidated Income Statement

6 months ended 30 June 2018

	Half year ended 30.06.18 $'000	(Audited) Full year ended 31.12.2017 $'000	Half year ended 30.6.2017 $'000
Revenue	**-**	-	-
Cost of sales	**-**	-	-
Gross profit	**-**	-	-
Operating expenses	**(321)**	(708)	(324)
Operating loss	**(321)**	(708)	(324)
Finance income	**-**	562	-
Finance expense	**(136)**	(7)	-
Loss before tax	**(457)**	(153)	(324)
Taxation	**-**	-	-
Loss for the period	**(457)**	(153)	(324)
Earnings per share expressed in cents per share			
From continuing and total operations:			
Basic and diluted	**(0.64)**	(0.3)	(1.7)

Condensed Consolidated Statement of Comprehensive Income

6 months ended 30 June 2018

	Half year ended 30.06.18 $'000	(Audited) Full year ended 31.12.2017 $'000	Half year ended 30.6.2017 $'000
Loss for the period	**(457)**	(153)	(324)
Currency translation differences	**(16)**	20	16
Total comprehensive loss attributable to the Group	**(473)**	(133)	(308)

Condensed Consolidated Balance

Sheet

As at 30 June 2018

	30.06.18	(Audited) 31.12.2017	30.6.2017
	$'000	$'000	$'000
Assets			
Non-Current Assets			
Property, plant & equipment	**1,267**	1,227	1,112
Intangible assets	**2,597**	2,173	1,005
Total non-current assets	**3,864**	3,400	2,117
Current Assets			
Trade and other receivables	**1,703**	1,538	877
Short term investments	**796**	2,073	609
Cash	**22**	22	21
Total Current Assets	**2,521**	3,633	1,507
Total Assets	**6,385**	7,033	3,624
Equity and Liabilities			
Share capital	**908**	908	908
Share premium	**625**	625	625
Convertible reserve	**6,022**	6,022	6,022
Reorganisation reserve	**(6,578)**	(6,578)	(6,578)
Foreign exchange reserve	**4**	20	17
Retained losses	**(724)**	(267)	(437)
Total Equity	**257**	730	557
Non - current liabilities			
Borrowings	**6,021**	6,093	2,782
Total Non-Current Liabilities	**6,021**	6,093	2,782
Current liabilities			
Trade and other payables	**107**	210	285
Total Current Liabilities	**107**	210	285
Total Equity and Liabilities	**6,385**	7,033	3,624

Condensed Consolidated statement of changes in equity

6 months ended 30 June 2018

	Share capital $'000	**Share premium $'000**	**Convertible reserve $'000**	**Re-organisation reserve $'000**	**Foreign exchange reserve $'000**	**Retained losses $'000**	**Total equity $'000**
Balance at 1 January 2017	-	-	-	-	-	(18)	(18)

Loss for the period	-	-	-	-	-	(324)	(324)
Currency translation differences	-	-	-	-	17	-	16
Total comprehensive loss	-	-	-	-	17	(324)	(308)
Reverse merger	687	303	6,022	(6,578)	-	(96)	338
Shares issued in period	191	-	-	-	-	-	191
Shares issued for cash	30	333	-	-	-	-	363
Cost of share issue	-	(11)	-	-	-	-	(11)
Balance at 30 June 2017	**908**	**625**	**6,022**	**(6,578)**	**17**	**(437)**	**557**
Profit for the period	-	-	-	-	-	170	170
Currency translation differences	-	-	-	-	3	-	3
Total comprehensive profit	-	-	-	-	3	170	173
Balance at 31 December 2017	**908**	**625**	**6,022**	**(6,578)**	**20**	**(267)**	**730**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(457)**	**(457)**
Currency translation differences	-	-	-	-	(16)	-	(16)
Total comprehensive loss	**-**	**-**	**-**	**-**	**(16)**	**(457)**	**(473)**
Balance at 30 June 2018	**908**	**625**	**6,022**	**(6,578)**	**4**	**(724)**	**257**

Condensed Consolidated Cash Flow Statement

6 months ended 30 June 2018

	Half year ended 30.06.18 $'000	(Audited) Full year ended 31.12.17 $'000	Half year ended 30.06.17 $'000
Loss for the period	**(457)**	(153)	(324)
Adjustment for:			
Depreciation	**-**	3	-
Amortisation	**55**	5	-
(Increase)/decrease in receivables	**(219)**	(439)	(309)
Increase/(decrease) in payables	**(103)**	168	243
Trade and other payables on reverse merger	**-**	(9)	(9)
Finance income	**-**	(562)	-
Finance expenditure	**136**	7	-
Shares issued to settle professional fees	**-**	191	-
Net cash used in operating activities	**(588)**	(789)	(399)
Cash flows from investing activities			
Purchase of development expenditure	**(481)**	(2,979)	(696)
Purchase of property, plant & equipment	**-**	(65)	(1,112)
Net interest	**(136)**	(7)	-
Net cash used in investing activities	**(617)**	(3,051)	(1,808)
Cash flows from financing activities			
Shares issued	**-**	363	-
Cost of shares issued	**-**	(11)	-
Short term investments	**1,277**	(2,073)	-
(Repayment)/proceeds from borrowings	**(72)**	5,469	1,597
Borrowing arrangement fees	**-**	(270)	-
Short term investments on reverse merger	**-**	348	609
Net cash generated from financing activities	**1,205**	3,826	2,206

Net increase/(decrease) in cash and cash equivalents	**-**	(14)	(1)
Cash and cash equivalents brought forward	22	21	21
Exchange gain on cash and cash equivalents	**-**	15	1
Cash and cash equivalents carried forward	**22**	22	21

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.

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial results are set out below. These policies have been consistently applied to all financial periods presented, unless otherwise stated.

Basis of preparation and going concern basis

Pennpetro Energy plc (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 consolidated financial results of the Company comprise the Company and its subsidiaries (together referred to as the Group). The accounting policies of the Company are the same as for the Group except where separately disclosed.

The unaudited Condensed Financial Statements should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Company has adopted IAS 34 in preparing the Condensed Financial Statements.

The unaudited Condensed Financial Statements do not constitute statutory Financial Statements within the meaning of the Companies Act 2006. They have been prepared in accordance with the recognition and measurement criteria of IFRSs as adopted by the European Union. Statutory Financial Statements for the year ended 31 December 2017 were approved by the Board of Directors on 30 April 2018. The Report of the Auditor on those Financial Statements was unqualified.

The same accounting policies, presentation and methods of computation are followed in these Condensed Financial Statements as were applied in the audited Financial Statements for the year ended 31 December 2017.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this review. The financial position of the Group, its cash flows and liquidity position are described in this business review. In addition, the below notes to the financial results include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk. As highlighted in below, the Group meets its day to day working capital requirements through its on-going cash flows.

Basis of consolidation

The Consolidated Financial Statements consolidate the Financial Statements of Pennpetro Energy plc and the Financial Statements of its subsidiary undertaking made up to 30 June 2018.

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.

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 Noble 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.

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.

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 30 June 2019 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.

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.

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.

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.

Trade receivables

Trade receivables are recognised initially at amortised cost, which is the fair value of consideration receivable and is adjusted for provision or 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 the monies due. The amount of the provision is recognised in the consolidated income statement immediately.

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.

Bank borrowings and other loans

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.

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.

Reserves

The reverse merger of Pennpetro Energy plc on 17 May 2017 was 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 reorganisation 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.

Financial risk and credit management

The Group has exposure to the following risks from its use of financial instruments:

(a) Market risk
(b) Credit risk
(c) Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial results.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(a) 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.

(b) 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.

(c) 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 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).

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(a) Estimated impairment of producing properties and capitalised drilling costs & equipment

At 30 June 2018, petroleum mineral leases and capitalised drilling costs & equipment on petroleum properties have a total carrying value of $3,646,589 (2017: $3,127,966). 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 30 June 2018.

(b) 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.

(c) 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

Earnings per share

Basic and diluted

Earnings per share is calculated by dividing the loss attributable to the equity holders of the Company by the weighted average number of Ordinary shares in issue during the period, excluding Ordinary shares purchased by the Company and held as treasury shares.

	Half year ended 30.06.18 $'000	Full year ended 31.12.17 $'000	Half year ended 30.6.17 $'000
(Loss)/profit attributable to equity holders of the Company ($'000)	**(457)**	(153)	(324)
Weighted average number of shares in issue (Number '000)	**70,900**	44,295	18,983
Earnings per share (cents)	**(0.64)**	(0.3)	(1.7)

Responsibility statement

Each of the Directors of the Company confirms that to the best of his or her knowledge:

a. the condensed set of Financial Statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";

b. the half year report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year);

c. the half year report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein.

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