



ATLANTIC PETROLEUM

P/F ATLANTIC PETROLEUM

# CONDENSED CONSOLIDATED INTERIM REPORT

FOR THE 6 MONTHS ENDED 30<sup>th</sup> JUNE 2016

## LOOKING TO THE FUTURE

Atlantic Petroleum has been through a challenging period where cost of production has exceeded revenue. The organisation and license portfolio have been rationalised and future value is in the process of being secured from the remaining assets.

There are still challenges in the North Sea for Atlantic Petroleum, but the Group is trying to secure the best possible outcome and value through commercial arrangements.

One key step in the process to stabilise and prepare the base for future growth is to ensure funding for the company. This has been achieved with the signing of the loan agreement with London Oil and Gas announced on the 25th May. The loan agreement will give us the flexibility we need to expand our business and to take advantage of current market conditions.

Atlantic Petroleum will be looking beyond the North Sea for future opportunities. The new focus area will principally be Eastern Europe and the Eurasian Economic Union. With the strengthening of the Board of Directors to include relevant experience and the addition of key resources to the management team, Atlantic Petroleum is well placed to capture opportunities in the new focus area and the plan is to secure assets and opportunities over the coming months.

## HIGHLIGHTS & OUTLOOK

Atlantic Petroleum North Sea Limited announced on the 6<sup>th</sup> June that it had entered into a Sale and Purchase Agreement with Bridge Petroleum for its 25% interest in the Orlando development. The consideration is DKK 7MM in cash and a deferred consideration in the form of a future share of the proceeds from the Orlando production revenue. The Sale and Purchase Agreement is contingent on Bridge Petroleum acquiring Iona UK Limited. When that transaction completes Atlantic Petroleum will not be participating in or funding the development of Orlando; the only involvement for the company will be receiving its future share of the proceeds when the field starts production. In the event oil prices recover, there will be an upside to Atlantic Petroleum from the Orlando revenue share.

There was no production during the quarter.

Atlantic Petroleum has reached agreement with the remaining joint venture partners in respect of the Chestnut Licence settling outstanding liabilities including releases from Parent Company Guarantees. The net result of the agreement will be an increase in net assets of DKK 67.4MM as a result of a reduction in long and short term liabilities as the Company is no longer responsible for the decommissioning of the Chestnut field. The Ettrick and Blackbird fields remain subject to potential forfeiture but Atlantic Petroleum is seeking to negotiate an orderly withdrawal from these fields. These two fields ceased operations on 1<sup>st</sup> June 2016 and are being decommissioned.

EBITDAX for 2Q was negative DKK 1.5MM.

Gross profit in 2Q 2016, after certain reversal of previous asset impairments and write-offs, was DKK 82.1MM.

Revenue for 2Q 2016 was DKK -0.1MM as a result of the loss of production discussed above. Net profit for 2Q 2016 was DKK 77.8MM. Cash and cash equivalents at end of 2Q 2016 was DKK 11.3MM and net assets/share-holders equity was negative DKK 59.7MM. Bank debt excluding exploration finance facility was DKK 62.8MM. G&A costs including Norway costs on a pre-tax basis total DKK 11.2MM for 2Q 2016 (DKK 9.1MM in 2015). Included in Q2 are losses on fixed assets that are part of the SPA with M Vest Energy AS.

The completion of the Sale and Purchase Agreement ("SPA") between Atlantic Petroleum Norge AS ("APN") and M Vest Energy AS for APN's Norwegian activities (including all of APN's assets and licenses, the liabilities of the licences, the employees and any residual cash balance within the company) is progressing with an anticipated closing in September. As a result of the transaction, APN expects to realize the tax value of the tax loss carry forward in December 2017 – currently estimated to be approx. NOK 27MM in cash.

The Management continued to negotiate, sale, withdrawal, and relinquishment in relation to the remaining UK exploration licences.

Atlantic Petroleum signed a loan agreement with London Oil & Gas 25<sup>th</sup> May for GBP 8MM. The loan is a convertible loan with a strike price of DKK 15 per share. The loan will ensure the funds needed to run the company for the next 3 years and will provide funds for expanding the portfolio. As a result of the sale of Pegasus with contingent payments due; Atlantic Petroleum UK Limited expects to receive future cash inflows from the UK North Sea and Atlantic Petroleum North Sea Limited will realise value from the sale of Orlando & possibly Kells. Beyond that the company will re-focus its business and take advantage of the current downturn in the market to principally seek opportunities in Eastern Europe and the Eurasian Economic Union. As part of the agreement the Board and management of Atlantic Petroleum will be complemented with people with relevant FSU experience as well as with funding expertise needed to finance future projects.

# PERFORMANCE SUMMARY

## ► KEY METRICS

DKK 1,000	3 months to 30 <sup>th</sup> June 2016	3 months to 30 <sup>th</sup> June 2015	6 months to 30 <sup>th</sup> June 2016	6 months to 30 <sup>th</sup> June 2015	Full year 2015
<b>Income statement</b>					
Revenue	-127	76,496	10,756	115,639	186,722
Impairment on producing assets	69,604	0	69,604	0	-123,606
Gross profit	82,077	9,696	64,988	-4,407	-420,729
Exploration expenses	-9,350	-27,354	-32,832	-28,788	-337,282
EBITDAX	-1,485	7,666	-26,174	-20,499	-271,685
Operating profit/loss (EBIT)	58,923	-36,418	6,507	-80,016	-805,813
Depreciations	154	-16,730	-4,090	-30,729	-73,241
Profit/Loss before taxation	64,642	-46,426	16,278	-101,559	-833,842
Profit/Loss after taxation	77,751	-15,397	39,055	-27,097	-563,990
<b>Financial position</b>					
Non-current assets	116,189	867,652	116,189	867,652	124,921
Current assets	143,302	268,621	143,302	268,621	180,869
Total assets	259,490	1,136,273	259,490	1,136,273	305,790
Current liabilities	235,355	258,298	235,355	258,298	269,753
Non-current liabilities	83,825	427,586	83,825	427,586	138,051
Total liabilities	319,181	685,884	319,181	685,884	407,804
Net assets/Equity	-59,690	450,389	-59,690	450,389	-102,014
<b>Cash flow and cash</b>					
Cash provided by operating activities	63,912	-14,755	-29,626	-88,616	206,104
Change in cash and cash equivalents	70,147	-47,832	-25,893	-103,258	-88,628
Cash and cash equivalents	11,328	15,180	11,328	15,180	42,049
Bank debt – excluding drawdown on the exploration finance facility	62,791	68,500	62,791	68,500	59,410
<b>Financial statement related key figures</b>					
Gross Margin	-	12.7%	604.2%	-3.8%	-225.3%
EBIT Margin	-	-47.6%	60.5%	-69.2%	-431.6%
EBITDAX Margin	-	10.0%	-243.3%	-17.7%	-145.5%
Return on Equity	-80.2%	-3.4%	-48.3%	-6.2%	-351.2%
<b>Share related key figures</b>					
Earnings per share Basic	21,03	-4.16	10,56	-7.33	-152.52
Earnings per share Diluted	21,03	-4.16	10,56	-7.33	-152.52
Share price in DKK on OMX CPH/IS and Oslo Stock Exchange	10/11	35/35	10/11	35/35	6/6
<b>Other key numbers</b>					
Production boepd – net to the Group	-	1,475	868	1,327	1,331
Full time equivalent positions including staff that have been given notice of termination of their employment. 11 of the current staff will leave as a result of the sale of the activities of Atlantic Petroleum Norway	14	25	14	25	26

# OUR PORTFOLIO 30TH JUNE

A total of 22 oil & gas licences at report publication date.

## UK

13 exploration, appraisal & development licences remain in the UK sector of the North Sea, Central North Sea & Southern North Sea. It is expected that the Group will exit most of these licences in the next few months

## NORWAY

6 exploration & appraisal licences in Norwegian Sea, the Barents Sea and the Norwegian sector of North Sea. These licences will transfer to M Vest Energy ASA on completion of the sale announced on the 9<sup>th</sup> March 2016. PL763 was relinquished in June 2016.

## IRELAND

2 exploration & appraisal licences. The Group is in the process of exiting Dunquin and is looking to exit the remaining licence in the near future.

More information on our licences and projects on [WWW.PETROLEUM.FO](http://WWW.PETROLEUM.FO)

	Licence	Field/Discovery/ Prospect	Company	AP equity	Comments
UK	P218	Perth	AP UK	13.35%	Withdrawal ongoing
	P588	Perth	AP UK	13.35%	Withdrawal ongoing
	P2069	Davaar	AP UK	30.00%	Withdrawal complete 04/05/16
	P2082	Skerryvore	AP UK	30.50%	In default - Drilling deferred
	P2108	Prometheus	AP UK	20.00%	Evaluation ongoing
	P2112	Badger	AP UK	20.00%	In default
	P2126	Orchards/Aurora	AP UK	10.00%	Possible 2017 well
	P2154	Perth Area	AP UK	13.35%	Withdrawal ongoing
	P2218	Marten & Polecat	AP UK	50.00%	Withdrawal complete 03/05/16
	P273	Ettrick	AP NS	8.27%	Exit negotiations ongoing
	P317	Ettrick, Jarvis	AP NS	8.27%	Exit negotiations ongoing
		Blackbird	AP NS	9.40%	Exit negotiations ongoing
	P354	Chestnut	AP NS	15.00%	Forfeiture terms agreed August 2016
	P1580	Blackbird	AP NS	8.27%	Exit negotiations ongoing
	P1606	Orlando	AP NS	25.00%	SPA signed 06/06/16 - awaiting completion
P1607	Kells (Staffa)	AP NS	25.00%	Sale Option agreement signed 09/06/16	
IRELAND	FEL 3/04	Dunquin South	AP IRE	5.369%	Exxon withdrawn, sale ongoing
	SEL 2/07	Hook Head	AP IRE	18.33%	Lease undertaking granted
		Dunmore	AP IRE	18.33%	Lease undertaking granted
		Helvick	AP IRE	18.33%	Lease undertaking granted
NORWAY	PL 528	Ivory	AP NOR	9.00%	Evaluation ongoing
	PL659	Langlitinden	AP NOR	10.00%	Evaluation ongoing
	PL704	Schiller	AP NOR	30.00%	Evaluation ongoing
	PL705	Stordal/Surna	AP NOR	30.00%	Drilling planned for 2017
	PL763	Karius	AP NOR	30.00%	Relinquished June 2016
	PL796	Beluga	AP NOR	20.00%	Evaluation ongoing
	PL802	Ganske	AP NOR	10.00%	Evaluation ongoing

# STATUS ON KEY LICENCES

The following section presents the status on some key licences at end of 2Q 2016.

## DEVELOPMENT & PRODUCTION

### UNITED KINGDOM

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#### **CHESTNUT (15%)**

##### **P354, Block 22/2a**

Atlantic Petroleum North Sea Ltd defaulted on certain payments relating to the field in mid-January 2016, which resulted in the loss of rights to petroleum shortly after. The Company examined its options in the time available to remedy the default but was unable to find a solution; the field became liable to forfeiture; the Company and Atlantic Petroleum have reached agreement with Centrica and Dana Petroleum regarding the forfeiture of the asset and the outstanding liabilities. Atlantic Petroleum no longer has any responsibility to decommission the field.

#### **ETTRICK (8.27%) & BLACKBIRD (9.39773%)**

##### **P273 & P317, Blocks 20/3a,2a & P273, P317 & P1580, Blocks 20/3a,2a,3f**

On 3rd December Atlantic Petroleum North Sea Limited announced that the company was in default under the Ettrick and Blackbird Joint Operating Agreement for failing to make payments. The default has not been cured and the asset is, as of the 26th January 2016, subject to forfeiture. Furthermore, operator Nexen has announced the termination of the contact with Bluewater for the Aoka Mizu FPSO. Production from the field ceased on June 1, 2016 and decommissioning of the vessel has commenced. The Company is in discussions with the Joint Venture partners regarding the outstanding and ongoing liabilities with respect to the asset.

#### **ORLANDO (25%) & KELLS (25%)**

##### **P1606 Block 3/3a & P1607, Block 3/8d**

Iona, the operator of the Orlando Field, announced on the 18th November that their financing for the field had fallen through and that they were likely to enter administration; subsequently confirmed on the 6th January 2016. Discussions on the future of the Orlando & Kells projects continues, but Orlando first oil will not be met by the end 2016 target. Atlantic Petroleum North Sea Limited has entered into a Sale and Purchase Agreement with Bridge Petroleum for its 25% interest in the Orlando development. When the transaction completes Atlantic Petroleum will not be participating in or funding the development of Orlando; the only involvement for the company will be receiving its share of the sale proceeds when the field starts production.

## NEAR DEVELOPMENT

### UNITED KINGDOM

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#### **PERTH (13.35%)**

##### **P218 & P588, Blocks 15/21a, b, c & f**

Due to the low oil price, the Company has decided that the Perth/Dolphin/Lowlander (13.35%) development does not fit with the Company's future strategy and the company is in default on the assets. At the present time, the Company is in the process of withdrawing from the assets and transferring its equity to the existing JV partners

## EXPLORATION & EVALUATION

No wells or major activities are currently planned.

# SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

THE FOLLOWING SIGNIFICANT EVENTS HAVE OCCURRED AFTER 30<sup>th</sup> June 2016:

None

# ENDORSEMENT AND SIGNATURES OF THE MANAGING DIRECTOR AND THE BOARD OF DIRECTORS

The Condensed Consolidated Interim Report for the first six months of 2016 comprises the Consolidated Statement of Financial Position of P/F Atlantic Petroleum and its subsidiaries. The Condensed Consolidated Interim Report is prepared in accordance with International Financial Reporting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

We consider the accounting policies used to be appropriate, such that the interim report gives a true and fair view of the Group's assets, liabilities and financial position at 30th June 2016, and of the results of the Group's operations and cash flow for the period 1<sup>st</sup> January – 30th June 2016.

The continual reduction in oil price throughout 2015 and into Q1 2016 when it reached a low of \$30/bbl. has had a drastic impact on the Group. The Group has continued to operate at a loss throughout Q2 2016 and its financial reserves were insufficient to service its operations and developments. However, Atlantic Petroleum has signed a loan agreement with London Oil and Gas for GBP 8MM. This agreement will secure the running of P/F Atlantic Petroleum for 3 years and will also enable the company to expand its business in the period. The company is still working with the bank and other creditors to resolve outstanding matters.

Tórshavn 25<sup>th</sup> August 2016

***Management:***

Ben Arabo  
CEO

***Board of Directors:***

David A. MacFarlane  
Chairman

Knud H. Nørve  
Deputy Chairman

Jan Müller

# AUDITOR'S REVIEW REPORT

## TO THE SHAREHOLDERS OF P/F ATLANTIC PETROLEUM

According to agreement with the Company's Board of Directors, we have reviewed the accompanying condensed consolidated interim Statement of Financial Position of P/F Atlantic Petroleum and its subsidiaries as of 30th June 2016, and the related condensed consolidated statements of income and cash flows and notes for the six months ended 30th June 2016.

These condensed consolidated interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

### Basis of Opinion

We conducted our review in accordance with the International Standard on Review Engagements (ISRE 2410). This Standard requires that we plan and perform the review to obtain limited assurance as to whether the preliminary financial information is free of material misstatements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Tórshavn 25<sup>th</sup> August 2016

## JANUAR

State Authorized Public Accountants P/F

Heini Thomsen

State Authorized Public Accountant

### Opinion

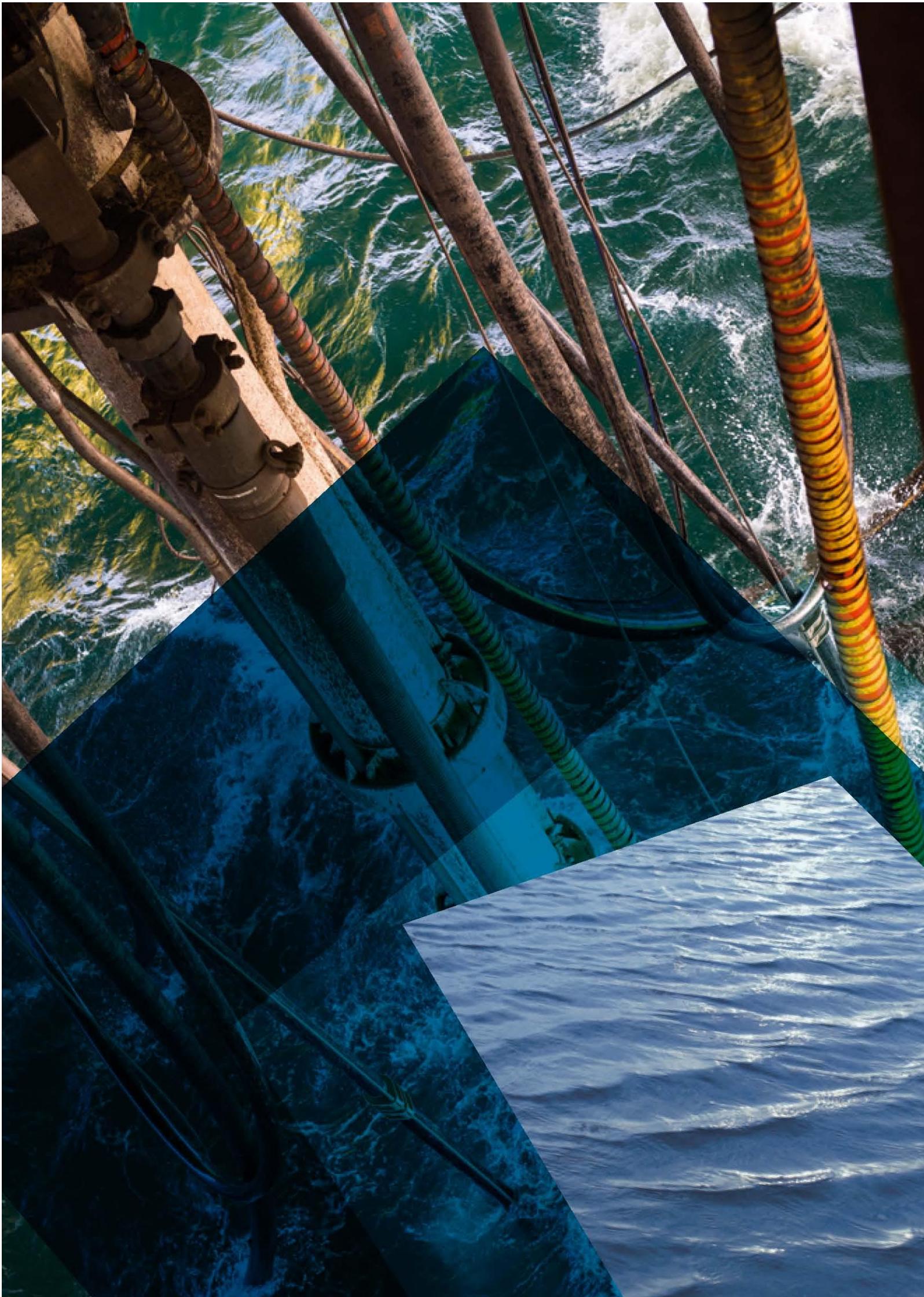
Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Report does not give a true and fair view of the financial position of the Group as of 30th June 2016, and of the results of its operations and its cash flows for the six months ended 30th June 2016 in accordance with International Financial Reporting Standards 34 "Interim Financial Reporting" as adopted by the European Union.

### Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 "Going Concern", where the Management is describing the Group's Going Concern position and the measures taken to resolve the situation. We refer to Note 1 for further explanation.

# **CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE 6 MONTHS ENDED  
30<sup>th</sup> JUNE 2016**



# CONSOLIDATED INCOME STATEMENT

DKK 1,000	Note	3 months to 30 <sup>th</sup> June 2016	3 months to 30 <sup>th</sup> June 2015	6 months to 30 <sup>th</sup> June 2016	6 months to 30 <sup>th</sup> June 2015	Full year 2015
Revenue	4	-127	76,496	10,756	115,639	186,722
Costs of sales	5	82,204	-66,800	54,232	-120,046	-607,452
<b>Gross profit/loss</b>		<b>82,077</b>	<b>9,696</b>	<b>64,988</b>	<b>-4,407</b>	<b>-420,729</b>
Exploration expenses		-9,350	-27,354	-32,832	-28,788	-337,282
Pre-licence exploration cost		-557	-2,026	-2,217	-2,680	-7,852
General and administration cost		-11,212	-9,076	-19,341	-21,191	-37,893
Depreciation PPE and intangible assets		-2,035	-2,804	-4,090	-5,638	-11,122
Other operating cost/income		0	-4,854	0	-17,312	9,066
<b>Operating profit/loss</b>	4	<b>58,923</b>	<b>-36,418</b>	<b>6,507</b>	<b>-80,016</b>	<b>-805,813</b>
Interest income and finance gains		1	24	1	25	1,816
Interest expenses and other finance costs	6	5,718	-10,032	9,770	-21,568	-29,845
<b>Profit/loss before taxation</b>		<b>64,642</b>	<b>-46,426</b>	<b>16,278</b>	<b>-101,559</b>	<b>-833,842</b>
Taxation	7	13,109	31,029	22,776	74,462	269,851
<b>Profit/loss after taxation</b>		<b>77,751</b>	<b>-15,397</b>	<b>39,055</b>	<b>-27,097</b>	<b>-563,990</b>
Earnings per share (DKK):						
Basic	14	21,03	-4.16	10,56	-7.33	-152,52
Diluted	14	21,03	-4.16	10,56	-7.33	-152,52

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DKK 1,000	3 months to 30 <sup>th</sup> June 2016	3 months to 30 <sup>th</sup> June 2015	6 months to 30 <sup>th</sup> June 2016	6 months to 30 <sup>th</sup> June 2015	Full year 2015
Items that may be recycled in P/L:					
Profit/loss for the period	77,751	-15,397	39,055	-27,097	-563,990
Exchange rate differences	-718	11,823	5,469	52,951	41,386
Value of Futures contracts		0		0	0
<b>Total comprehensive profit/loss in the period</b>	<b>77,033</b>	<b>-3,574</b>	<b>44,524</b>	<b>25,854</b>	<b>-522,604</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DKK 1,000	Note	At 30 <sup>th</sup> June 2016	At 30 <sup>th</sup> June 2015	At 31 <sup>st</sup> December 2015
<b>Non-current assets</b>				
Goodwill	8	0	56,403	0
Intangible assets	9	642	12,096	9,485
Intangible exploration and evaluation assets	10	11,642	307,888	27,042
Tangible development and production assets	11	63,824	446,086	70,783
Property plant and equipment	12	264	1,751	992
Tax repayable		16,750	43,428	0
Deferred tax asset		23,066		16,619
		<b>116,189</b>	<b>867,652</b>	124,921
<b>Current assets</b>				
Inventories		0	13,418	7,849
Trade and other receivables		57,436	87,024	58,993
Tax repayable		74,537	149,860	71,978
Financial assets		0	3,140	0
Cash and cash equivalents		11,328	15,180	42,049
		<b>143,302</b>	<b>268,621</b>	180,869
<b>Total assets</b>		<b>259,490</b>	<b>1,136,273</b>	305,790
<b>Current liabilities</b>				
Exploration finance facility		72,957	149,860	70,786
Short term bank debt		43,291	29,500	39,910
Short term liabilities		0	0	0
Trade and other payables		118,646	78,938	158,538
Financial liabilities		0	0	0
Current tax payable		462	0	519
		<b>235,355</b>	<b>258,298</b>	269,753
<b>Non-current liabilities</b>				
Exploration finance facility		11,999	33,259	0
Long term bank debt		19,500	39,000	19,500
Convertible loan facility		817	0	0
Long term provisions		51,509	209,054	118,551
Deferred tax liability		0	146,273	0
		<b>83,825</b>	<b>427,586</b>	138,051
<b>Total liabilities</b>		<b>319,181</b>	<b>685,884</b>	407,804
<b>Net assets</b>		<b>-59,690</b>	<b>450,389</b>	-102,014
<b>Equity</b>				
Share capital		369,786	369,786	369,786
Share premium account		233,444	233,444	233,444
Share based bonus schemes – LTIP	15	975	7,120	3,174
Futures Contracts Value		0	0	0
Translation reserves		97,171	103,267	91,702
Retained earnings		-761,066	-263,228	-800,121
<b>Total equity shareholders' funds</b>		<b>-59,690</b>	<b>450,389</b>	-102,014

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DKK 1,000	Share capital	Share premium account	Share based Payments LTIP and Bonus	Futures contracts value	Translation reserves	Retained earnings	Total
<b>At 1<sup>st</sup> January 2015</b>	<b>369,786</b>	<b>233,444</b>	<b>5,766</b>	<b>0</b>	<b>50,316</b>	<b>-236,131</b>	<b>423,181</b>
LTIP awarded in the period	0	0	1,354	0	0	0	1,354
Change in translation reserves	0	0	0	0	52,951	0	52,951
Result for the period	0	0	0	0	0	-27,097	-27,097
<b>At 30<sup>th</sup> June 2015</b>	<b>369,786</b>	<b>233,444</b>	<b>7,120</b>	<b>0</b>	<b>103,267</b>	<b>-263,228</b>	<b>450,389</b>
LTIP and bonus awarded i the period	0	0	-3,946	0	0	0	-3,946
Changes in Futures contracts value	0	0	0	0	0	0	0
Change in share premium account cost of capital raise	0	0	0	0	0	0	0
Translation reserves	0	0	0	0	-11,565	0	-11,565
Result for the period	0	0	0	0	0	-536,893	-536,893
<b>At 1<sup>st</sup> January 2016</b>	<b>369,786</b>	<b>233,444</b>	<b>3,174</b>	<b>0</b>	<b>91,702</b>	<b>-800,121</b>	<b>-102,014</b>
LTIP awarded in the period, net	0	0	-2,199	0	0	0	-2,199
Translation reserves	0	0	0	0	5,469	0	5,469
Result for the period	0	0	0	0	0	-39,055	-39,055
<b>At 30<sup>th</sup> June 2016</b>	<b>369,786</b>	<b>233,444</b>	<b>975</b>	<b>0</b>	<b>97,171</b>	<b>-761,066</b>	<b>-59,690</b>

# CONSOLIDATED CASH FLOW STATEMENT

DKK 1,000	6 months to 30 <sup>th</sup> June 2016	6 months to 30 <sup>th</sup> June 2015	Full year 2015
<b>Operating activities</b>			
Operating profit/loss	6,507	-80,016	-805,813
Allocated consolidated capitalised interest	0	1,037	1,527
Unrealised cost/gain on futures contracts – oil price hedging	0	17,325	20,560
Impairment on exploration and evaluation assets	32,723	28,599	337,052
Relinquishment and disposal of licences	109	188	230
Depreciation, depletion and amortisation	4,090	29,691	71,714
Impairment on producing licences	-69,604	0	389,172
Change in inventories	7,435	5,188	10,409
Change in trade and other receivables	-16,129	-52,247	79,884
Change in trade and other payables	-21,436	-65,404	48,988
Interest revenue and finance gain received	1	25	1,816
Interest expenses and other finance cost	9,770	-21,568	-29,845
Income taxes	16,906	48,566	81,410
<b>Net cash flow provided by operating activities</b>	<b>-29,626</b>	<b>-88,616</b>	206,104
<b>Investing activities</b>			
Capital expenditure	-12,463	-57,010	-228,558
<b>Net cash used in investing activities</b>	<b>-12,463</b>	<b>-57,010</b>	-228,558
<b>Financing activities</b>			
Change in short term debt	3,380	9,110	-46,674
Change in long term debt	12,816	33,259	-19,500
<b>Net cash flow provided from financing activities</b>	<b>16,196</b>	<b>42,368</b>	-66,174
<b>Change in cash and cash equivalents</b>	<b>-25,893</b>	<b>-103,258</b>	-88,628
Cash and cash equivalents at the beginning of the period	42,049	111,989	111,989
Currency translation differences	-4,828	6,449	18,688
<b>Total cash and cash equivalents at the beginning of the period</b>	<b>37,221</b>	<b>118,438</b>	130,677
<b>Cash and cash equivalents at the end of the period</b>	<b>11,328</b>	<b>15,180</b>	42,049

# NOTES TO THE ACCOUNTS

## ACCOUNTING POLICY

### GENERAL INFORMATION

P/F Atlantic Petroleum is a limited company incorporated and domiciled in the Faroe Islands and listed on NASDAQ OMX Copenhagen and on Oslo Stock Exchange.

The principal activities of the Company and its subsidiaries (the Group) are oil and gas exploration, appraisal, development and production historically in the UK, Ireland, Norway, Netherlands and the Faroe Islands; but in the future principally in Eastern Europe and the Eurasian Economic Union.

The Annual and Consolidated Report and Accounts of the Group as at and for the year ended 31<sup>st</sup> December 2015 are available upon request from the Company's registered office at Yviri við Strond 4, P.O. Box 1228, FO-110 Tórshavn, Faroe Islands or at [www.petroleum.fo](http://www.petroleum.fo).

This Condensed Consolidated Interim Report is presented in DKK.

### 1 GOING CONCERN

The Group have previously reported the impact of the low oil price throughout 2015 and into Q1 of 2016 when it reached a low of \$30/bbl., on the Group. The Group operated at a loss throughout 2015 which has continued through Q2 2016. The Group's financial reserves have been insufficient to service its operations and developments. Attempts to raise debt in 2015 were unsuccessful and the Group has had only limited success in realising value through asset sales. Due to insufficient funds the Group has been unable to meet due payments and is now under Default (as defined in the relevant agreements) on all three producing fields, and as a consequence is no longer entitled to receive petroleum from the fields and the interests in the fields are now liable for forfeiture and in the case of Chestnut the asset has been handed over to the remaining co-venturers and outstanding liabilities settled. The Group Management is in constant communication with the main creditors about the situation.

Atlantic Petroleum signed a loan agreement with London Oil & Gas 25<sup>th</sup> May 2016 for GBP 8MM. The loan is a convertible loan with a strike price of DKK 15 per share. The loan will ensure the funds needed to run the company for the next 3 years and will provide funds for expanding the portfolio. The Group expects to receive future income from the contingent payments due under the agreement for the sale of Pegasus and the sale of Orlando. Beyond that the company will re-focus its business and take advantage of the current downturn in the market to seek opportunities in Eastern Europe and the Eurasian Union. As part of the agreement the Board and management of Atlantic Petroleum will be complemented with people with relevant FSU experience as well as with funding expertise needed to finance future projects.

For the above reasons, the Management and the Board of Directors have decided to prepare the Financial Report on a going concern basis.

### 2 STATEMENT OF COMPLIANCE

This Condensed Consolidated Interim Report has been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 *Interim Financial Reporting* as adopted by the EU. It does not include all of the information required for full Annual Financial Statements, and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31<sup>st</sup> December 2015.

### 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this Condensed Consolidated Interim Report are the same as those applied by the Group in its Consolidated Financial Statements as at and for the year ended 31<sup>st</sup> December 2015.

**4 GEOGRAPHICAL SEGMENTAL ANALYSIS**

<b>DKK 1,000</b>	<b>6 months to 30<sup>th</sup> June 2016</b>	6 months to 30 <sup>th</sup> June 2015	Full year 2015
<b>Revenues by origin:</b>			
Faroe Islands	0	0	0
United Kingdom	10,754	115,148	183,376
Norway	2	491	3,346
Other	0	0	0
	<b>10,756</b>	115,639	186,722
<b>Operating loss/profit by origin:</b>			
Faroe Islands	-581	-4,530	-4,153
United Kingdom	46,468	-33,893	-579,440
Norway	-32,440	-26,782	-206,420
Other	-6,940	-14,811	-15,800
	<b>6,507</b>	-80,016	-805,813

**5 COST OF SALE**

<b>DKK 1,000</b>	<b>6 months to 30<sup>th</sup> June 2016</b>	6 months to 30 <sup>th</sup> June 2015	Full year 2015
Operating costs	7,937	89,767	155,070
Produced oil in inventory at market value	7,435	8,066	5,188
Amortisation and depreciation, PPE:	0	0	0
Oil and gas properties	0	25,091	62,119
Impairment	-69,604	0	389,172
	<b>-54,232</b>	120,046	607,452

**6 INTEREST INCOME & EXPENSE AND FINANCE GAIN & COST**

<b>DKK 1,000</b>	<b>6 months to 30<sup>th</sup> June 2016</b>	6 months to 30 <sup>th</sup> June 2015	Full year 2015
<b>Interest income and finance gain:</b>			
Short term deposits	535	25	1,816
	<b>535</b>	25	1,816
<b>Interest expense and other finance cost:</b>			
Bank loan and overdrafts	5,262	5,097	10,732
Interest on convertible loan	7	0	0
Creditors	45	2	7
Unwinding of discount on decommissioning provision	-768	2,412	4,509
Others	51	141	215
Exchange differences	-14,369	13,916	14,382
	<b>-9,770</b>	21,568	29,845

**7 TAXATION**

<b>DKK 1,000</b>	<b>6 months to 30<sup>th</sup> June 2016</b>	6 months to 30 <sup>th</sup> June 2015	Full year 2015
<b>Current tax :</b>			
Tax repayable/(payable) in UK	0	4,394	3,907
Tax repayable in Norway	16,907	44,171	77,503
Tax payable in Ireland	0	0	0
<b>Total current tax</b>	<b>16,907</b>	<b>48,565</b>	<b>80,876</b>
<b>Deferred tax:</b>			
Deferred tax cost in UK	0	0	0
Deferred tax income in UK	0	42,515	110,402
Deferred tax income/cost in Norway	5,870	-16,618	78,040
<b>Total deferred tax</b>	<b>5,870</b>	<b>25,897</b>	<b>188,441</b>
<b>Tax credit/tax on loss/profit on ordinary activities</b>	<b>22,776</b>	<b>74,462</b>	<b>269,851</b>

As at 30<sup>th</sup> June 2016, the Group has a net deferred tax asset of DKK 23.1MM in respect of Norway.

The loss can be carried forward indefinitely.

**8 GOODWILL**

<b>DKK 1,000</b>	<b>At 30<sup>st</sup> June 2016</b>	At 30 <sup>th</sup> June 2015	At 31 <sup>st</sup> December 2015
At 1 <sup>st</sup> January	0	51,917	51,917
Impairment	0	0	-53,800
Exchange movements	0	4,486	1,883
<b>At end of period</b>	<b>0</b>	<b>56,403</b>	<b>0</b>

**9 INTANGIBLE ASSETS**

<b>DKK 1,000</b>	<b>At 30<sup>th</sup> June 2016</b>	At 30 <sup>th</sup> June 2015	At 31 <sup>st</sup> December 2015
<b>Costs</b>			
At 1 <sup>st</sup> January	39,866	38,178	38,178
Exchange movements	-908	1,423	-1,611
Additions	-32,116	30	3,299
<b>At end of period</b>	<b>6,842</b>	<b>39,631</b>	<b>39,866</b>
<b>Amortisation and depreciation</b>			
At 1 <sup>st</sup> January	30,381	21,602	21,602
Exchange movements	-1,331	716	-955
Charge this period	-22,849	5,217	10,379
<b>At end of period</b>	<b>6,200</b>	<b>27,535</b>	<b>30,381</b>
<b>Net book value at end of period</b>	<b>642</b>	<b>12,096</b>	<b>9,485</b>

**10 INTANGIBLE EXPLORATION AND EVALUATION (E&E) ASSETS**

<b>DKK 1,000</b>	<b>At 30<sup>th</sup> June 2016</b>	At 30 <sup>th</sup> June 2015	At 31 <sup>st</sup> December 2015
<b>Costs</b>			
At 1 <sup>st</sup> January	27,042	258,653	258,653
Exchange movements	-1,926	18,178	16,836
Additions	19,190	59,865	26,773
Disposal/relinquishment of licences	-108	0	-230
Explorations expenditures written off/sold	-32,556	-28,808	-274,990
Consolidated interest written off	0	0	0
<b>At end of period</b>	<b>11,642</b>	307,888	27,042

**11 TANGIBLE DEVELOPMENT AND PRODUCTION (D&P) ASSETS**

<b>DKK 1,000</b>	<b>At 30<sup>th</sup> June 2016</b>	At 30 <sup>th</sup> June 2015	At 31 <sup>st</sup> December 2015
<b>Costs</b>			
At 1 <sup>st</sup> January	1,559,809	1,353,864	1,353,864
Exchange movements	-167,972	135,137	82,996
Additions	-255,070	65,813	122,949
<b>At end of period</b>	<b>1,136,767</b>	1,554,814	1,559,809
<b>Amortisation and depreciation</b>			
At 1 <sup>st</sup> January	1,489,026	984,785	984,785
Exchange movements	-143,783	98,854	52,950
Depreciation, charge	-193,960	25,090	62,119
Impairment, charge	-78,340	0	389,172
<b>At end of period</b>	<b>1,072,943</b>	1,108,728	1,489,026
<b>Net book value at end of period</b>	<b>63,824</b>	446,086	70,783

**12 PROPERTY, PLANT AND EQUIPMENT**

<b>DKK 1,000</b>	<b>At 30<sup>th</sup> June 2016</b>	At 30 <sup>th</sup> June 2015	At 31 <sup>st</sup> December 2015
<b>Costs</b>			
At 1 <sup>st</sup> January	4,738	5,410	5,410
Exchange movements	-192	274	38
Additions	-1,741	-10	-710
<b>At end of period</b>	<b>2,805</b>	5,674	4,738
<b>Amortisation and depreciation</b>			
At 1 <sup>st</sup> January	3,746	3,374	3,374
Exchange movements	-189	185	31
Charge this period	-1,016	364	341
<b>At end of period</b>	<b>2,541</b>	3,923	3,746
<b>Net book value at end of period</b>	<b>264</b>	1,751	992

**13 DIVIDENDS**

No interim dividend is proposed. (30<sup>th</sup> June 2015: DKK nil)

**14 EARNINGS PER SHARE**

	Profit or loss after tax		Weighted average number of shares		Earnings per share	
	2Q 2016 DKK 1,000	2Q 2015 DKK 1,000	2Q 2016 1,000	2Q 2015 1,000	2Q 2016 DKK	2Q 2015 DKK
<b>Basic</b>						
<b>3 months to 30<sup>th</sup> June</b>	<b>77,751</b>	-15,397	<b>3,697,863</b>	3,698	<b>21,03</b>	-4.16
<b>Diluted</b>						
<b>3 months to 30<sup>th</sup> June</b>	<b>77,751</b>	-15,397	<b>3,697,863</b>	3,698	<b>21,03</b>	-4.16
<b>Basic</b>						
<b>6 months to 30<sup>th</sup> June</b>	<b>39,055</b>	-27,097	<b>3,697,863</b>	3,696	<b>10,56</b>	-7.33
<b>Diluted</b>						
<b>6 months to 30<sup>th</sup> June</b>	<b>39,055</b>	-27,097	<b>3,697,863</b>	3,696	<b>10,56</b>	-7.33

The calculation of basic earnings per share is based on the profit or loss after tax and on the weighted average number of ordinary shares in issue during the period.

**15 SHARE BASED PAYMENT SCHEMES  
- LONG TERM INCENTIVE PLAN (LTIP)**

	At 30 <sup>th</sup> June 2016		At 31 <sup>st</sup> December 2015	
	Number of options	Weighted average exercise price DKK	Number of options	Weighted average exercise price DKK
<b>1<sup>st</sup> January</b>	43,925	118.79	67,897	135.75
Granted during the period	0	0	0	0
Lapsed during the period	-20,789	157.50	-1,620	130.05
Exercised during the period	0	0	0	0
Expired during the period	0	0	-22,352	169.5
<b>Outstanding at end of period</b>	<b>23,136</b>	<b>84.00</b>	43,925	118.79
<b>Exercisable at end of period</b>	<b>0</b>	<b>0</b>	0	0

The total fair value of the options granted in 2014 is estimated to be DKK 1.1MM provided that all options are exercised by 7<sup>th</sup> April 2017.

**16 CAPITAL COMMITMENTS AND GUARANTEES AT 30<sup>th</sup> June 2016**

P/F Atlantic Petroleum has provided a parent guarantee to fulfil all obligations the wholly owned subsidiary Atlantic Petroleum (Ireland) Limited, has in connection with the sale and purchase agreement with ExxonMobil Exploration and Production Ireland (Offshore) Limited and the related Joint Operating Agreement regarding Irish Continental Shelf Petroleum Exploration Licence No. 3/04 (Frontier) relating to Blocks 44/18, 44/23, 44/24, 44/29 and 44/30.

P/F Atlantic Petroleum has provided a parent guarantee to fulfil all obligations its wholly owned subsidiary Atlantic Petroleum UK Limited has in connection with the share purchase agreement with the vendors of the entire issued share capital of Atlantic Petroleum North Sea Limited (was known as Volantis Exploration Limited).

P/F Atlantic Petroleum has provided a parent guarantee to fulfil all obligations the wholly owned subsidiary of Atlantic Petroleum UK Limited, Atlantic Petroleum North Sea Limited (was known as Volantis Exploration Limited), has in connection with the sale and purchase agreement with Iona Energy Company (UK) Ltd regarding UK licence P1606, block 3/3b and P1607, block 3/8d.

P/F Atlantic Petroleum has provided guarantees on behalf of Atlantic Petroleum Norge AS to the Norwegian government for liabilities relating to its exploration and appraisal activities.

P/F Atlantic Petroleum has provided guarantees on behalf of Atlantic Petroleum Norge AS to SEB the lender of the bank credit facility established in January 2015 to finance the Company's growth plans in Norway.

P/F Atlantic Petroleum has provided a parent guarantee to fulfil all obligations Atlantic Petroleum UK Limited has in connection with the farm-in agreement with Summit Petroleum Ltd regarding UK Licence P1556, block 29/1c.

P/F Atlantic Petroleum has provided a parent guarantee to fulfil all obligations Atlantic Petroleum UK Limited has in connection with the purchase of assets from Premier Oil.

P/F Atlantic Petroleum has provided a guarantee dated 30<sup>th</sup> October 2014 in favour of Centrica North Sea Gas Limited for the due and punctual payment of all sums which Atlantic Petroleum UK Limited is obliged to pay from time to time under Licences P1724 and P1727 and under the Joint Operating Agreement dated 24<sup>th</sup> May 2013 in respect of the Licences.

P/F Atlantic Petroleum has provided a guarantee dated 30<sup>th</sup> October 2014 in favour of Third Energy Offshore Limited for the due and punctual payment of all sums which Atlantic Petroleum UK Limited is obliged to pay from time to time under Licences P1724 and P1727 and under the Joint Operating Agreement dated 24<sup>th</sup> May 2013 in respect of the Licences.

P/F Atlantic Petroleum has provided a guarantee dated 11<sup>th</sup> November 2014 in favour of Centrica North Sea Oil Limited for the due and punctual payment of all sums which Atlantic Petroleum North Sea Limited is obliged to pay from time to time under Licence P354 and under the Joint Operating Agreement dated 27<sup>th</sup> August 1982 in respect of the Licence A release from this Guarantee was secured as a part of the settlement with Centrica over the Chestnut Field.

P/F Atlantic Petroleum has provided a guarantee dated 11<sup>th</sup> November 2014 in favour of Dana Petroleum (BVUK) Limited for the due and punctual payment of all sums which Atlantic Petroleum North Sea Limited is obliged to pay from time to time under Licence P354 and under the Joint Operating Agreement dated 27<sup>th</sup> August 1982 in respect of the Licence. A release from this Guarantee was secured as a part of the settlement with Dana over the Chestnut Field

P/F Atlantic Petroleum has provided a guarantee dated 16<sup>th</sup> December 2014 in favour of Dana Petroleum (BVUK) Limited for the due and punctual payment of all sums which Atlantic Petroleum North Sea Limited is obliged to pay from time to time under Licences P273, P317 and P1580 and under the Ettrick Field Area Operating Agreement dated 7<sup>th</sup> February 2006 in respect of the Licences in so far as they relate to the Rest of Block Sub-Areas.

P/F Atlantic Petroleum has provided a parent guarantee to the UK Department for Energy and Climate Change in connection with Atlantic Petroleum UK Limited assets in the UKCS:

- (i) the parent will always provide necessary finance to enable Atlantic Petroleum UK Limited to fulfil its obligations in the UK area
- (ii) the parent will not alter Atlantic Petroleum UK Limited legal rights, so that the Company cannot fulfil its obligations
- (iii) the parent will undertake Atlantic Petroleum UK Limited financial obligations if the Company fails to do so

P/F Atlantic Petroleum has a senior secured loan agreement with P/F Eik Banki. The Company has offered the following security to lender in connection with the loan agreement:

- (i) shares in Atlantic Petroleum UK Limited and Atlantic Petroleum North Sea Limited
- (ii) receivables from Atlantic Petroleum UK Limited
- (iii) charge over proceeds from insurance coverage

The Company has provided lender with a negative pledge and investment in new ventures shall be endorsed by the lender. Pursuant to the Loan Agreement with London Oil & Gas announced 25<sup>th</sup> May, the company is in co-operation with Eik and London Oil and Gas proceeding with re-drafting securities in accordance with the new agreement. This is expected to complete shortly.

## 17 CONTINGENT CONSIDERATIONS

In addition to the payments to Iona Energy Ltd for 25% equity in Orlando and Kells, pursuant to the agreement, Atlantic Petroleum North Sea Limited has committed to pay:

- (i) USD 1.25MM upon Kells FDP approval
- (ii) Staged payments commencing six months after first production from Orlando of USD 1.8MM, USD 1.8MM, USD 0.925MM and USD 0.925MM made every six months thereafter respectively and
- (iii) A proportionate share of royalties payable to the previous owner of the Kells field, Fairfield Energy.

The commitments in respect of Orlando will pass to Bridge Petroleum on completion of the sales agreement.

Further proceeds are expected to arise from the Pegasus Sale and Purchase Agreement with Third Energy if and when certain milestones in the development and exploration of the Pegasus area occur. It should be noted that in the current market conditions that there is a higher than normal credit risk with oil and gas companies in general however, the Group has absolutely no reason to doubt or question the financial well-being of Third Energy.

## 18 RELATED PARTY TRANSACTIONS

Intra-group related party transactions, which are eliminated on consolidation, are not required to be disclosed in accordance with IAS 24.

# GLOSSARY

APA	Awards in Predefined Areas
Appraisal well	A well drilled as part of an appraisal drilling programme which is carried out to determine the physical extent, reserves and likely production rate of a field
BOEPD	Barrels of Oil Equivalent per Day
BOE	Barrels of Oil Equivalent
BOPD	Barrels of Oil per Day
Brown Field Allowance	A UK tax allowance for certain mature fields, known as brown fields, will shield a portion of income from the Supplementary Charge, encouraging companies to invest in getting the very most out of existing fields and infrastructure in the UK Continental Shelf
DECC	UK Department of Energy & Climate Change
DKK	Danish kroner. The currency used in the Kingdom of Denmark
EBIT	Operating Profit - Earnings before Interest and Taxes
EBITDAX	Earnings before Interest, Taxes, Depreciation, Amortizations and Exploration Expenses
EBIT Margin	% (Operating Margin) (EBIT/Sales)
EBITDAX Margin	% (EBITDAX/Sales)
E&P	Exploration & Production
Exploration	A general term referring to all efforts made in the search for new deposits of oil and gas
Exploration well	A well drilled in the initial phase in petroleum exploration
Farm out	A contractual agreement with an owner who holds a working interest in an area to assign all or part of that interest to another party in exchange for payment or fulfilling contractually specified conditions
FDP	Field Development Plan
FPSO	A Floating Production, Storage and Offloading unit used by the oil and gas industry for the processing of hydrocarbons and for storage of oil
Gross Margin	% (Gross profit or loss/Sales)
ISA	International Standard on Auditing
IFRS	International Financial Reporting Standards
Lead	Areas thought to contain hydrocarbons.
Lease Undertaking	When a discovery is made in a licensed area and the licensee is not in a position to declare the discovery commercial during the period of the licence but expects to be able to do so in the foreseeable future, the licensee may apply for a Lease Undertaking. This is an undertaking by the Minister, subject to certain conditions, to grant a Petroleum Lease at a stated future date. The holder of a Lease Undertaking is required to hold a Petroleum Prospecting Licence which will govern activities under the Lease Undertaking
Ltd	A limited liability company
MM	Million
NCS	Norwegian Continental Shelf
Net Cash	Cash and cash equivalents less Short & Long Term Debt
Oil field	An accumulation of hydrocarbons in the subsurface
PPE	Property, Plant and Equipment
Prospect	An area of exploration in which hydrocarbons have been predicted to exist in economic quantity
Return on Equity	(ROE) (%) (Profit for the period excl. Minorities/Average Equity excl. Minorities)
ROE	Return on Equity
Spud	To start drilling a well
TSR	Total Shareholder Return
Water injector well	A well into which water is pumped in order to increase the yield of adjacent wells
2D/3D	2D and 3D seismic is an acoustic measuring technology which generates a cross-section of the deep seabed and is used primarily when initially reconnoitring for the presence of oil or gas reservoirs. 3D has a narrower grid, which gives a better map of the area
Wildcat	An exploration well drilled in an unproven area to find out whether petroleum exists in a prospect

# CONTACTS

## **P/F Atlantic Petroleum**

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Reg. No. Faroes 2695

## **SUBSIDIARIES**

- **Atlantic Petroleum UK Ltd**
- **Atlantic Petroleum North Sea Ltd**
- **Volantis Netherlands BV**
- **Atlantic Petroleum (Ireland) Ltd**
- **Atlantic Petroleum Norge AS**

For subsidiary's contact details please see company website