P/F ATLANTIC PETROLEUM

ANNUAL AND CONSOLIDATED REPORT AND ACCOUNTS

YEAR TO 31ST DECEMBER 2016

Faroese Company Registration No/VAT No: 2695/475653

PERFORMANCE SUMMARY

KEY METRICS

DKK 1,000	3 months to 31st Dec 2016	3 months to 31st Dec 2015	Full year 2016	Full year 2015	Full year 2014
Income statement					
Revenue	-206	23,486	10,224	186,722	343,146
Impairment on producing assets	-1,336	-6,279	66,169	-123,606	-209,085
Gross loss/profit	-1,247	-291,752	61,780	-420,729	-186,856
Exploration expenses	-23,701	-192,688	-62,064	-337,282	-214,862
EBITDAX	-15,486	-277,239	-48,637	-271,685	124,358
Operating loss (EBIT)	-31,664	-503,084	-39,765	-805,813	-454,073
Depreciations	8,859	-33,157	4,767	-73,241	-154,484
Loss before taxation	-35,777	-505,994	-30,465	-833,842	-484,215
Profit/Loss after taxation	-15,804	-424,248	12,390	-563,990	-218,257
Financial position					
Non-current assets	123,453	124,921	123,453	124,921	698,261
Current assets	57,304	180,869	57,304	180,869	374,808
Total assets	180,757	305,790	180,757	305,790	1,073,068
Current liabilities	172,724	269,753	172,724	269,753	262,080
Non-current liabilities	90,706	138,051	90,706	138,051	387,807
Total liabilities	263,430	407,804	263,430	407,804	649,887
Net assets/Equity	-82,673	-102,014	-82,673	-102,014	423,181
Cash flow and cash					
Cash provided by operating activities	102,214	258,852	48,376	206,104	96,795
Change in cash and cash equivalents	2,309	-5,796	-33,602	-88,628	-69,426
Cash and cash equivalents	4,924	42,049	4,924	42,049	111,989
Bank debt – excluding drawdown on the exploration finance facility	67,513	59,410	67,513	59,410	58,500
Financial statement related key figures					
Gross Margin	605.34%	-1,242.2%	604.26%	-225.3%	-54.5%
EBIT Margin	15,370.87%	-2,142.1%	-388.94%	-431.6%	-132.3%
EBITDAX Margin	7,517.48%	-1,180.4%	-475.71%	-145.5%	36.2%
Return on Equity	20.46%	-399.1%	13.42%	-351.2%	-42.8%
Share related key figures					
Earnings per share Basic	-4.27	-114.72	3.35	-152.52	-59.03
Earnings per share Diluted	-4.27	-114.72	3.35	-152.52	-59.03
Share price in DKK on OMX CPH and Oslo Stock Exchange	12/11	6/6	12/11	6/6	42/45
Other key numbers					
Production boepd – net to the Group	0	1,206	0	1,331	1,605
Full time equivalent positions including staff that has been given notice of termination of their employment.	14	23	14	26	27

CHAIRMAN'S STATEMENT

Atlantic Petroleum was hit very hard by the sustained downturn in the oil price in recent years, particularly as the Company's revenue base was from mature high Opex assets in the North Sea, and survival was very much the Company's objective. 2016 has therefore been a year of restructuring and securing a new base to build our future on. A key element in being able to do this was the loan agreement we made during the year with London Oil and Gas, securing committed short term funding for the company.

A year ago Atlantic Petroleum was in default on all three producing assets and these assets were due to be forfeited. We have worked with the operators and partners in these assets, and we managed to exit Chestnut through a settlement agreement with the license partners. We are now also in dialogue with the Ettrick and Blackbird partners on an orderly exit. These latter 2 fields ceased production during the summer of 2016.

We have exited from most of the exploration and development assets that we were active in. We still have some work to do with regards to our finalising our remaining obligations in the North Sea, but we are optimistic that we will achieve closure on these matters in 2017.

We recognised from an early stage that the company's most important assets in the North Sea were Orlando and Kells, in spite of the liquidity challenges amongst their ownership group; and that the assets have significant value even in the current challenging business environment. In 2017 we have been able to sign an agreement to sell our 25% equity in Orlando for a percentage share of the future production revenue from the field, and are continuing to look to sell our 25% of Kells for either cash or a share of future revenues.

The Orlando sale is expected to complete in the near future. If the transaction completes as expected and the development project proceeds as planned, it will secure a healthy revenue stream for the Company from 2018 and onwards. In addition, Atlantic Petroleum continues to have an economic interest in the sale of the Pegasus gas discovery in 2015 that has the potential to bring the company up to GBP 9MM in income over the coming years, as and when that project is developed.

The closure of the sale of our Norwegian business in January 2017 means the Company now has a significantly reduced cost base and can look forward to the receipt of NOK 27MM of tax refunds by the end of this year.

The legacy issues arising from the Company's former North Sea activity are now largely addressed or have a plan established, though inevitably in this industry, some risks and challenges remain. Atlantic Petroleum however, now has a solid platform from which to embark on its new strategic direction, which with the support of London Oil and Gas should provide the opportunity for growth in new regions.

The Chief Executive is to be commended for his stewardship of the Atlantic Petroleum group throughout the difficulties of the past couple of years and for delivering the opportunity that now lies ahead. I'd like to thank him and Board colleagues for their efforts and support throughout this time.

David MacFarlane
Chairman of the Board
29th March 2017

CHIEF EXECUTIVE OFFICER'S STATEMENT

2016 was very challenging and it forced us to focus on the few key assets that could retain their value in a low price environment whilst exiting the other assets through withdrawals and commercial deals.

The sale of our Norwegian activity marked the end of our exploration activities and the transaction has reduced our cost base significantly The Norwegian exit will mean that Atlantic Petroleum will receive approximately NOK 27MM as cash from tax refunds this year. We have exited most of our UK and Ireland exploration assets and will exit the remaining exploration assets in 2017.

We still face challenges having negative equity of DKK 83MM with abandonment obligations on the UKCS that require resolution. However, we are optimistic about facing the future with a new low cost base combined with expected revenue from the UK Orlando field and the UK Pegasus milestone payments that should provide a solid base for the future.

Orlando is expected to commence production in 2018, and Atlantic Petroleum will receive a 2% revenue share from production until the field has produced 5MM barrels gross and a 4.35% revenue share after that. According to the most recent Competent Persons Summary Report announced by Atlantic Petroleum Orlando is expected to contain between 8.5MM and 15.3MM barrels of oil. The initial production rate is expected to be in excess of 10,000 barrels per day.

If things go according to plan we will be able to make a new start in 2017 embarking on our new strategy of looking to the Eurasian Union for new opportunities. We have funding and support from London Oil & Gas that will enable us to expand our activities in accordance with the new direction.

2016 was a year of restructuring, refocusing and securing value from key assets. The goal is to make 2017 a "new start" and beginning the process of rebuilding and growing the Company.

Ben Arabo
CEO
Tórshavn 29th March 2017

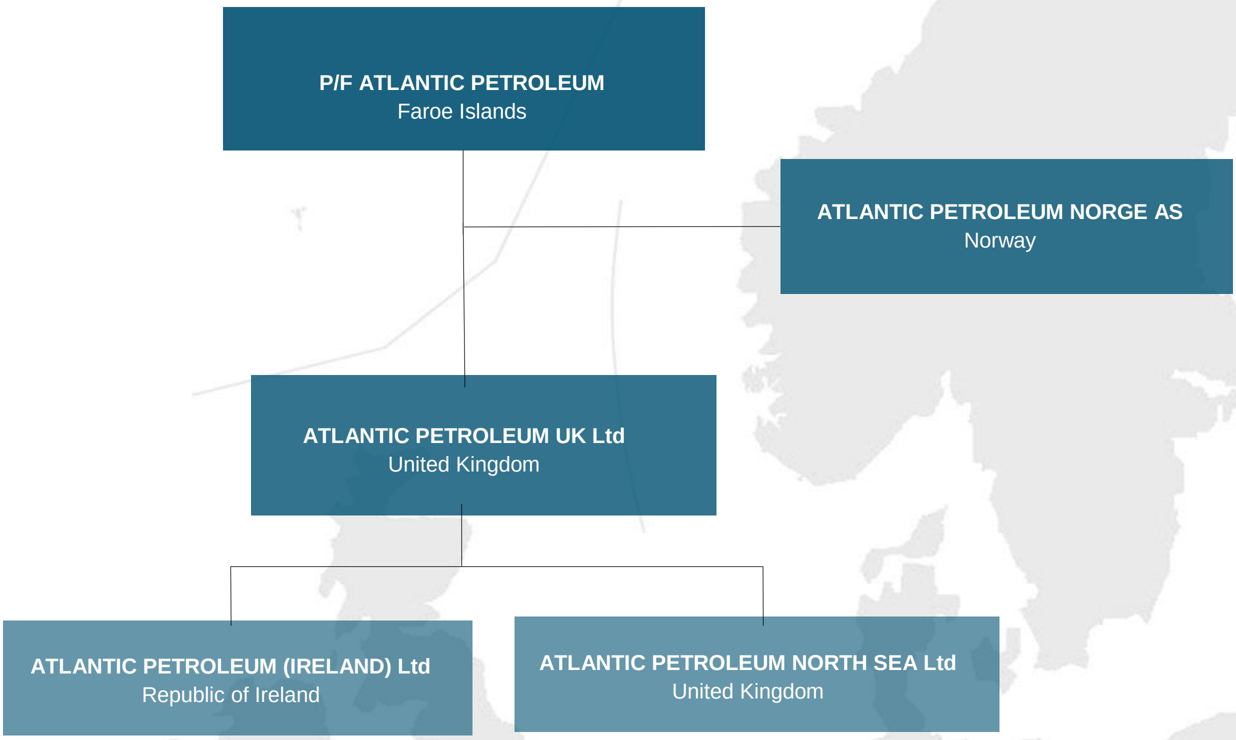
2017 OUTLOOK

The Group does not expect any production in 2017. Given a successful conclusion on the Orlando transaction and a settlement agreement with the Ettrick and Blackbird partners, the group expects to deliver a positive result in 2017.

ATLANTIC PETROLEUM GROUP STRUCTURE

The Atlantic Petroleum Group comprises the Faroes based parent company P/F Atlantic Petroleum and its five 100% owned subsidiaries in UK, Norway, Ireland and Netherlands. The activities and assets in Atlantic Petroleum Norge AS have been sold to M Vest Energy AS. This transaction completed 20th January 2017 and Atlantic Petroleum will no longer be involved in upstream activity in Norway.

P/F Atlantic Petroleum is listed on NASDAQ OMX Copenhagen under the ticker ATLA DKK and on Oslo Stock Exchange under the ticker ATLA NOK.



PROJECT PORTFOLIO

SECURING REMAINING VALUE

Atlantic Petroleum has rationalized its portfolio in 2016 with the aim of retaining only economic interests or development and production assets in the UK North Sea whilst pursuing international opportunities in the Eurasian Union. The company will seek to exit the Irish shelf in 2017. The company currently (29th March 2017) holds the following assets:

Country	License	Field/Discovery/Prospect	Company	Equity	Comments
UK	P.2108	Prometheus	AP UK	20%	To be sold or relinquished
UK	P.2112	Badger	AP UK	20%	Farm out in process
UK	P.2126	Orchards/Aurora	AP UK	10%	To be sold or relinquished
UK	P.273	Ettrick	AP NS	8.27%	Forfeiture ongoing
UK	P.317	Ettrick, Jarvis	AP NS	8.27%	Forfeiture ongoing
UK	P.317	Blackbird	AP NS	9.40%	Forfeiture ongoing
UK	P.1580	Blackbird	AP NS	9.40%	Forfeiture ongoing
UK	P.1606	Orlando	AP NS	25%	Sale ongoing
UK	P.1607	Kells	AP NS	25%	Evaluation ongoing
Ireland	FEL 3/04	Dunquin South	AP I	4%	Sale ongoing
Ireland	SEL 2/07	Hook Head/Dunmore/Helvick	AP I	18.33%	To be sold or relinquished

DEVELOPMENT & PRODUCTION

PRODUCING ASSETS

In 2016, Atlantic Petroleum had a total production revenue of DKK 10,224,000 from the Chestnut field. Atlantic Petroleum went into default in January of 2016, and the company exited the asset through a settlement agreement in August 2016.

The company has no remaining production assets having defaulted on Ettrick and Blackbird in November 2015 and these fields subsequently ceased production in June 2016. Atlantic Petroleum had no revenue from these fields in 2016. Discussions are continuing with partners to reach agreement on an orderly exit.

DEVELOPMENT & NEAR DEVELOPMENT

Atlantic Petroleum has two remaining assets that are development or near development assets. Atlantic Petroleum signed a sale and purchase agreement in March 2017 with Decipher Energy for its 25% interest in the P.1606 Orlando development. The agreement, on completion, means that Atlantic Petroleum will receive a 2% revenue share from production until the field has produced 5MM barrels gross and a 4.35% revenue share after that. According to the most recent Competent Persons Summary Report announced by Atlantic Petroleum, Orlando is expected to contain between 8.5MM and 15.3MM barrels of oil. If the development proceeds as currently planned, the field is expected to commence production in 2018, with an initial production rate expected to be in excess of 10,000 barrels per day.

The Company retains its 25% interest in the P.1607 Kells license, but the plans for taking operatorship have been cancelled. The forward plan is now to pursue a sale for cash or a future revenue share.

Atlantic Petroleum withdrew from all other UK development & near development assets in 2016, and expect to exit the Irish assets in 2017.

The only tangible development and production asset in the balance sheet is Orlando, currently held at DKK 62.3MM.

The company has not had a CPR report undertaken for YE 2016.

EXPLORATION & APPRAISAL

Atlantic Petroleum has had no exploration activity in 2016. The company has written off all intangible exploration and evaluation assets (DKK 27MM in 2016) and will exit the remaining exploration assets in 2017. The company has no firm well commitment, and has one remaining contingent commitment well on UK P.2126 Aurora (10%). The Company will seek to sell P.2126 in 2017.

DIRECTORS' REPORT

Financial Review

Consolidated Income Statement

The result after tax for 2016 was a net profit of DKK 12.4MM (2015: Loss of DKK 564.0MM) and a net loss of DKK 15.8MM for the last quarter of 2016 (4Q 2015: Loss of DKK 424.2MM).

The company had a gross profit of DKK 61.8MM in 2016 (2015: Gross loss of DKK 420.7MM).

Exploration cost amounted to DKK 62.1MM in 2016 (2015: DKK 337,3MM). The severe trading conditions has resulted in the Group writing off all exploration expenditures in 2016.

General and administration costs amounted to DKK 26.9MM in 2016 (2015: DKK 37.9MM). This number is primarily from the G&A for the Norwegian operation. A sale of Norway was initiated during 2016, but only completed 20th January 2017.

Interest revenue and finance gains totaled DKK 20MM (2015: DKK 1.8MM).

Interest expenses and other finance costs amounted to DKK 11,1MM (2015: DKK 29.8MM).

Loss before taxation totalled DKK 30.5MM (2015: Loss of DKK 833.8MM).

In 2016 taxation amounted to an income of DKK 42.9MM (2015: Income of DKK 266.0MM).

The result after tax in 2016 was a profit of DKK 12.4MM (2015: Loss of DKK 564.0MM).

Consolidated Statement of Financial Position

Total assets at the end of 2016 amounted to DKK 180.8MM (2015: DKK 305.8MM).

Consolidated Assets

Exploration and evaluation assets amounted to DKK 0 at the end of 2016 (2015: DKK 27.0MM).

Development and production assets amounted to DKK 62.3MM at the end of 2016 (2015: DKK 70.8MM). The only development and production asset is Orlando.

Trade and other receivables were DKK 52.4MM at the end of 2016 (2015: DKK 59.0MM). All outstanding balances have been settled except for the Ettrick and Blackbird Trust accounts which contain security deposits paid to date for the decommissioning of these fields.

Cash and cash equivalents were at DKK 4.8MM at the end of 2016 (2015: DKK 42.0MM).

Consolidated Liabilities

Total liabilities amounted to DKK 263.5MM at the end of 2016 (2015: DKK 407.8MM).

Total current liabilities totalled DKK 172.8MM at the end of 2016 (2015: DKK 269.8MM).

Short term debt amounted to DKK 49.4MM (2015: DKK 110.7MM). The short term debt decreased overall due to the reduced call on the Exploration Finance Facility in Norway, however the short term bank debt increased due to the Group's inability to make the scheduled repayment and interest of the loan with Eik Bank. The Eik Bank debt has however, been successfully refinanced in 2017. Trade and other payables amounted to DKK 122.9MM (2015: DKK 158.5MM). Trade and other payables includes the outstanding portion of the full pre-tax cost of decommissioning of Ettrick and Blackbird fields which would be placed in Decommissioning Security Trust Accounts.

Total non-current liabilities amounted to DKK 90.7MM at the end of 2016 (2015: DKK 138.1MM).

Deferred tax liability has been reduced to zero as it is not clear at the moment whether the Group will have taxable profits in the future to offset the tax losses and allowances currently available to it.

Non-current liabilities also consist of a long term bank loan and of long term provision for abandonment costs of the Ettrick and Blackbird fields and two UK exploration wells and three wells in Ireland.

Consolidated Equity

The total shareholders' equity amounted to DKK -82.7MM at the end of 2016 (2015: DKK 102.0MM).

Cash Flow

Net cash provided from operating activities amounted to DKK 48.4MM (2015: DKK 206.1MM).

Capital expenditures in the period were DKK 38.1MM (2015: DKK 228.6MM).

Net cash proceeds from financing activities amounted to DKK -43.9MM (2015: Proceeds of DKK -66.2MM).

Cash and cash equivalents totaled DKK 4.8MM at the end of 2016 (2015: DKK 42.1MM).

Net Cash Position

At the start of 2016, the net cash position, excluding the exploration finance facility, amounted to DKK -17.4MM. At year end 2016 this had decreased to a net cash position of DKK -62,7MM (2015: DKK -17.4MM) comprising DKK 4.8MM (2015: DKK 42.0MM) of cash and cash equivalent balances, short term bank loans of DKK 47.2MM (2015: DKK 39.0MM) and a long term bank loan of DKK 20.3MM (2015: DKK 19.5MM). In March 2017 the convertible loan agreement with London Oil and Gas was finalized and the Eik debt was refinanced.

Significant Events after the Balance Sheet Date

The following significant announcements have occurred after the end of the financial year and prior to the approval of the financial statement for 2016:

- **On 22nd January 2017** Atlantic Petroleum announced that it had completed on the sale of its Norwegian activities to M Vest Energy announced 9th March 2016. The Norwegian activities include all of Atlantic Petroleum Norway's assets and licenses, the liabilities of the licences, and the employees. The transaction constitutes a cessation of all of Atlantic Petroleum Norway's petroleum activities. As a result of the transaction, the Company expects to realize the tax value of the tax loss carry forward in December 2017 – currently estimated to be approx. NOK 27MM in cash.

- **On 13th March 2017** Atlantic Petroleum announced that pursuant to the Loan Agreement with London Oil and Gas announced 25th May 2016, all conditions for the GBP 8MM loan were fulfilled and that the Board of Atlantic Petroleum has decided to use the authority under the company's Articles of Association secion 3E to issue convertible instruments to London Oil and Gas for up to GBP8MM plus interest. As per 13th March the company has drawn GBP 881,478 or DKK 7.744.604,69 of the loan facility. Atlantic Petroleum has also agreed revised terms with Eik Bank for the DKK 66MM debt to Eik Bank. The debt has been refinanced and is to be paid back from December 2017 to December 2019. London Oil and Gas has security in the assets of P/F Atlantic Petroleum, Atlantic Petroleum North Sea Limited and certain assets in Atlantic Petroleum UK. Eik Bank has security in the assets of Atlantic Petroleum Norge AS and certain assets in Atlantic Petroleum UK.

- **On 14th March 2017** A**tlantic Petroleum** announced that it had entered into a Sale and Purchase Agreement with Decipher Energy for its 25% interest in the Orlando development. The consideration is a 2% revenue share of the total Orlando production revenue until the field has produced 5 million barrels of oil. After that the revenue share to Atlantic Petroleum increases to 4.35% of the total Orlando field revenue. USD 1MM of the initial 2% revenue share is prepaid on completion of the Sale and Purchase Agreement.

When the transaction completes Atlantic Petroleum will not be participating in or funding the development of Orlando, and the only involvement for the company will be receiving its share of the sale proceeds when the field starts production.

According to the most recent Competent Persons' Report prepared for Atlantic Petroleum by Gaffney Cline and Associates announced in March 2015, Orlando holds between 8.5 and 15.3 million barrels of recoverable reserves. Initial production rates on Orlando are expected to be in excess of 10.000 barrels per day.

Risk Management

The realization of the risks confronting the Group from the sustained fall in the commodity price throughout 2015 and 2016, and the consequent threat to its ability to continue as a going concern, are all too evident from the preceding pages of this and last years report, and the challenges this presents have constantly been at the forefront of the Board's and Management's efforts over the past couple of years . All the other risks are currently necessarily secondary in nature but for the sake of good order are described below.

Atlantic Petroleum is typically exposed to a number of different market and operational risks arising from core business activities. The risks can be internal as well as external in nature.

Market risks also include changes in currency exchange rates and interest rates. The changes can affect the value of the assets, liabilities and future cash flows.

Foreign currency

The Group reports in DKK, which means exchange rate exposure related to USD, GBP, NOK and EUR. Operational currency risks relate to oil sales, gas sales and operating costs. On the investment side, the Group is also exposed to fluctuations in USD, GBP, NOK and EUR exchange rates as the Group's most material investments in oil and gas assets are made in these currencies.

Credit risk

Atlantic Petroleum may have significant sums deposited in short-term bank accounts in USD, GBP, NOK and DKK at times. There is a currency and a credit risk attached to such cash balances (bank deposits).

Operational risk

Through its core business Atlantic Petroleum may become exposed to operational risk including the possibility that the Group may experience, among other things, a loss in oil and gas production or an offshore catastrophe. The Company works with and will monitor operators and partners to ensure that HSE and asset integrity are given the highest priority. The Group also has an insurance programme in place to cover the potential impact of any catastrophic events.

Atlantic Petroleum has traditionally operated in the, United Kingdom, the Republic of Ireland, and Norway and the political climate in these countries is perceived as being stable.

Insurance

The Group has in place an insurance package covering equipment, subsurface facilities and operation. In addition, and when required, the Group has insurance cover on offshore pollution and third party liability. The insurance package may also includes business interruption coverage, covering a proportion of the cash flow arising from the producing fields. Atlantic Petroleum has in addition an insurance covering office and staff.

The Group is confident that its insurance policies cover the overall insurance requirement of the current business and provides insurance cover for the Group's general and standard risk exposure in relation to property damage, personal injury and liability.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) Policy

Atlantic Petroleum's culture and operating activities are conducted with a high priority for ethical standards. Being a responsible company in all of our operations is an integral part of Atlantic Petroleum and we continue to implement high ethical and practical standards in all our activities.

Atlantic Petroleum is committed to the review and continuous improvement of corporate social responsibility and environment, health and safety performance. To meet these commitments, we will operate in accordance with the following principles:

- Conduct our business activity in compliance with the law.
- Act openly and honestly in business dealings.
- Comply with best practice in our corporate governance.
- Behave responsibly and with sensitivity to local communities in all areas where we operate.
- Provide sustainable benefits and avoid the creation of a dependency culture.
- Integrate CSR and EHS responsibility throughout our activities.
- Recognise that all parties working on Atlantic Petroleum's behalf can impact our operation and reputation and that we all share a common responsibility.
- Ensure, wherever possible, that our partners' approach to CSR is compliant with our own standards.
- Monitor and review our CSR and EHS policies and procedures as appropriate to ensure suitability and effectiveness.
- Use continuous assessment to ensure our CSR activities meet identified performance objectives.

Environment, Health and Safety (EHS) Policy

Atlantic Petroleum's activities are undertaken with integrity, responsibility and respect for the environment and the community in which these activities take place. This entails conducting operations in an ethically and practically sound manner that minimises risks and places high priority on the safety of those involved in Atlantic Petroleum's oil and gas operations.

Atlantic Petroleum is committed to:

- Comply with all applicable Environment, Health and Safety (EHS) laws, regulations and standards and to apply responsible standards where legislation is inadequate or does not exist.
- A systematic framework of hazard identification and risk assessment through which safe operations can be managed.

- Develop effective EHS management systems to identify and manage risks associated with its activities by focusing on risk avoidance and prevention.
- Establish accountability and responsibility for EHS within organisational line management.
- Provide training, equipment and facilities necessary to maintain a safe and healthy worksite.
- Practice pollution prevention and seek viable ways to minimize the environmental impact of operations, reduce waste, conserve resources and respect biodiversity.
- Protect and minimise any harm to the environment in our oil and gas activities, and continuously focus on improving our environmental procedures.
- Monitor and review our CSR and EHS policies and procedures as appropriate to ensure suitability and effectiveness.
- Ensure that partners and contractors' policies and activities are compliant with our own standards, and recognise that all working on our behalf can impact our operation and reputation and that we all share a common responsibility for our safety.

Shareholder Information

Atlantic Petroleum aims to maintain a regular dialogue with the shareholders through the formal channel of stock exchange announcements, interim reports, annual reports, Annual General Meetings and presentations to investors and analysts.

Board of Directors
David A MacFarlane, Chairman
Knud Nørve, Deputy Chairman
Jan Muller

Management
Ben Arabo, CEO,
Nigel Thorpe, Business Development Director and Interim CFO (Until 6th October 2016)
Wayne J Kirk, Technical Director (Until 6th October 2016)
Jonny Hesthammer, Managing Director Atlantic Petroleum Norge AS (Until 20th January 2017)

At year end 2016 Atlantic Petroleum was listed on NASDAQ OMX Copenhagen (primary), and on Oslo Stock Exchange (secondary). Trading in Atlantic Petroleum shares can be done by contacting:

- Members of NASDAQ OMX Copenhagen
- Members of Oslo Stock Exchange
- A stockbroker or a financial institution

NASDAQ OMX ticker:	ATLA DKK
OSLO:	ATLA NOK
Bloomberg ticker:	ATLA IR
Reuters ticker:	FOATLA.IC

Financial calendar

- Friday 28th April: Annual General Meeting.
- Friday 26th May: 1st Quarter 2017 Condensed Consolidated Interim Report to be issued.
- Wednesday 30th August: 2nd Quarter 2017 Condensed Consolidated Interim Report to be issued.
- Wednesday 29th November: 3rd Quarter 2017 Condensed Consolidated Interim Report to be issued.

Share Price 2016

P/F Atlantic Petroleum has its main listing on NASDAQ OMX Copenhagen and secondary listing on Oslo Stock Exchange. The year 2016 started with a share price of DKK 6.25. The closing price at year end was DKK 11.80 – an increase of 88.8% compared to the beginning of the year

Further information about the Group is available on Atlantic Petroleum's website www.petroleum.fo.

Please address enquiries related to the stock market and investor relations to:

Atlantic Petroleum
Tel.: + 44 208 879 0524
E-mail: petroleum@petroleum.fo

Auditors

The consolidated accounts for 2016 have been audited by JANUAR State Authorised Public Accountants P/F. The financial statements of the subsidiary companies for the year ended 31st December 2016, Atlantic Petroleum UK and Atlantic Petroleum North Sea are audited by Ernst & Young in Aberdeen and Atlantic Petroleum (Ireland), for the year ended 31st December 2016, will be audited by KPMG in Dublin. Atlantic Petroleum Norge AS is audited by Ernst & Young Norway.

Results and Dividends

The Group's result after taxation for the year amounted to a loss of DKK 8.1MM (2015: Loss of DKK 564.0MM). Payment of a dividend is not proposed.

Shareholders Capital and Vote

The issued share capital in Atlantic Petroleum is DKK 3,697,860 consisting of 3,697,860 fully paid shares, each with a nominal value of DKK 1.

Each share holds one vote and all shares have the same rights. For more details, please refer to the articles of associations of the Parent Company which can be found on the Company's website www.petroleum.fo.

Dematerialisation of paper shares

In October 2005, Atlantic Petroleum commenced dematerialisation of paper shares. All shares issued before 2004 (paper shares) have been called in for electronic registration. As at 31st December 2016, there were paper shares in issue with the nominal value of DKK 6,665 The process to convert the shares into electronic registration will continue in 2017.

Distribution of Share capital

By year end 2016 Atlantic Petroleum had around 7,400 shareholders representing more than 30 countries. The majority of the share capital was represented by Danish and Faroese investors.

Substantial Shareholders

At 31st December 2016, the following shareholders are listed according to §28 b in the Companies Act:

TF Holding Group:

- P/F Eik Banki & P/F TF Íløgur

The listed shareholder above holds interests in excess of 5% of the issued ordinary share capital of the Parent Company.

Director Profiles

David A MacFarlane
Chairman of the Board of P/F Atlantic Petroleum

Date and year of birth:
3rd February 1957

Primary occupation:
Chartered Accountant / Company Director

Principal work experience:
More than 30 years' experience in financial control & management in the upstream oil and gas business

First elected to the Board:
19th March 2011

Expiry of current term:
AGM 2017

Current key offices:
Atlantic Petroleum: Chairman,; Governor of University of Aberdeen.

Knud Nørve
Deputy Chairman of P/F Atlantic Petroleum

Date and year of birth:
19th January 1964

Primary occupation:
Chief Executive Officer at Infragas Norge AS

Principal work experience:
25 years of broad E&P experience including asset management, business control, commercial negotiations, oil and gas transportation and sales, oil service, upstream development projects, reservoir management, governmental relations, CCS and R&D.

First elected to the Board:
24th April 2015

Expiry of current term:
AGM 2017

Current key offices:
Board Member of Norwegian Juralco Group.

Jan E Müller
Board Member of P/F Atlantic Petroleum

Date and year of birth:
2nd April 1951

Primary occupation:
Managing Director of FOÍB

Principal work experience:
More than 30 years' experience in various roles in business and media

First elected to the Board:
24th April 2015

Expiry of current term:
AGM 2017

Current key offices:
Member of the Representation Board of TF.

As a matter of Corporate Governance the independence of the Directors is evaluated yearly.

All of the Board members are independent of the Company.

Board Meetings
In 2016, the Board of P/F Atlantic Petroleum held 15 board meetings, including tele meetings.

Management Profiles

CEO

Ben Arabo

CEO of the Atlantic Petroleum Group

Date and year of birth:
1st September 1973

Primary occupation:
CEO of the Atlantic Petroleum Group

Principal work experience:
Exploration Business Manager for Hess in South East Asia. Management committee member for Hess in exploration ventures in Asia, North Africa and North West Europe. Branch manager of Hess' activities on the Faroe Islands

Joined Atlantic Petroleum:
August 2010

Current key offices:
Executive Director of Atlantic Petroleum UK Ltd, Atlantic Petroleum (Ireland) Ltd, Atlantic Petroleum North Sea Ltd and Chairman of Atlantic Petroleum Norge AS.

TECHNICAL DIRECTOR (Until 6th October 2016)

Wayne J Kirk

Technical Director of the Atlantic Petroleum Group

Date and year of birth: 4th May 1965

Primary occupation:
Technical Director of P/F Atlantic Petroleum, Atlantic Petroleum UK Ltd, Atlantic Petroleum (Ireland) Ltd and Atlantic Petroleum North Sea Ltd

Principal work experience:
Over 20 years exploration, development and production experience in the North Sea, West of Shetlands, Brazil and New Zealand

Joined Atlantic Petroleum:
December 2011

Current key offices:
Executive Director of Atlantic Petroleum UK Ltd, Atlantic Petroleum (Ireland) Ltd , Atlantic Petroleum North Sea Ltd and Volantis Netherlands BV.

BUSINESS DEVELOPMENT DIRECTOR (Until 6th October 2016)

Nigel Thorpe

Business Development Director of the Atlantic Petroleum Group and Interim CFO effective 30th January 2015

Date and year of birth:
18th August 1956

Primary occupation:
Business Development Director of P/F Atlantic Petroleum, Atlantic Petroleum UK Ltd, Atlantic Petroleum (Ireland) Ltd and Atlantic Petroleum North Sea Ltd

Principal work experience:
Mr. Thorpe has more than 30 years international E&P experience. He previously held positions as CEO of Volantis Exploration Ltd, COO of a private Malaysian E&P Company and MD of Eni Lasmo Indonesia

Joined Atlantic Petroleum:
June 2011

Current key offices:
Executive Director of Atlantic Petroleum UK Ltd, Atlantic Petroleum (Ireland) Ltd, Atlantic Petroleum North Sea Ltd, and Atlantic Petroleum Norge AS

MANAGING DIRECTOR (Until 20th January 2017)

Jonny Hesthammer

Managing Director of Atlantic Petroleum Norge AS

Date and year of birth:
7th March 1965

Primary occupation:
Managing Director Atlantic Petroleum Norge AS

Principal work experience:
More than 20 years petroleum industry experience in Norway and internationally. Previously held positions as CEO of Emergy Exploration AS (co-founder), geoscientist and manager in Statoil (Norway), geologist in Husky Oil (Canada), CTO in Rocksource (co-founder) and professor at the University of Bergen (Norway).

Joined Atlantic Petroleum:
December 2012

Current key offices:
MD Atlantic Exploration Norge AS. Prof. II at the University of Bergen, Norway. Chairman of the Board of GeoContrast AS and Jonny Hesthammer AS.

Directors' Interests and Remuneration

Beneficial interests of the Board of Directors holding office at the year-end, related parties and indirect holdings of the Group are set out below:

Board of directors	Position	Number of Shares	Related Parties	Indirect Holdings	Remuneration 2016	Remuneration 2015
David MacFarlane	Chairman of the Board	357	0	0	400,000	387,334
Knud H. Nørve	Deputy Chairman	0	0	0	266,667	136,667
Jan Müller	Board Member	100	100	0	200,000	136,667
Total		**457**	**100**	**0**	**866,667**	**660,668**

The Board of Directors do not receive any share related compensation from the Group.

CEO's Interests and Remuneration

Beneficial interests of the CEO holding office at the year-end, related parties and indirect holdings of the Group are set out below:

Management The Group	Position	Number of Shares	Related parties	Indirect Holdings	Salary incl. pension 2016	Remuneration 2016	Remuneration 2015	Change of value of LTIP 2016	Change of value of LTIP 2015
Ben Arabo	CEO	1.521	10	1.404	1.924.788	1.924.788	1.980.492	-674,000	-1,072,415

Stock Exchange Announcements 2016 – (most recent first)

No	Date	Subject
21/2016	11th December 2016	Atlantic Petroleum is selected as operator of UKCS Licenses P.1606, Orlando, and P.1607, Kells
20/2016	9th December 2016	Atlantic Petroleum makes board and management nominations
19/2016	25th November 2016	Atlantic Petroleum requests joint operating committee meetings on UK Orlando and Kells
18/2016	24th November 2016	Atlantic Petroleum announces third quarter 2016 accounts
17/2016	17th November 2016	Update on the UK Orlando asset
16/2016	25th August 2016	Atlantic Petroleum announces second quarter 2016 accounts
15/2016	24th August 2016	Invitation to conference call for the Q2 2016 financial results
14/2016	6th June 2016	Atlantic Petroleum sells Orlando for cash and a share of the sale proceeds from Orlando production
13/2016	25th May 2016	Atlantic Petroleum announces first quarter 2016 accounts
12/2016	25th May 2016	Atlantic Petroleum signs an £8 million secured convertible loan facility
11/2016	23rd May 2016	Invitation to conference call for the Q1 2016 financial results
10/2016	4th May 2016	Updated Articles of Association
9/2016	29th April 2016	Result of Annual General Meeting 29th April 2016
8/2016	5th April 2016	Summons for the Annual General Meeting of P/F Atlantic Petroleum
7/2016	30th March 2016	The result after tax for 2015 was a net loss of DKK 564MM
6/2016	29th March 2016	Invitation to conference call for the full year 2015 financial results
5/2016	24th March 2016	Atlantic Petroleum signs Heads of Terms with London Oil & Gas Ltd
4/2016	9th March 2016	Atlantic Petroleum announces the sale of its Norwegian activities to M Vest Energy
3/2016	1st March 2016	Changes to the 2016 Financial Calendar
2/2016	5th February 2016	Operations update January 2016 & market update
1/2016	6th January 2016	Operations update December 2015

Please refer to www.petroleum.fo where the announcements to the stock exchanges can be read in full.

CORPORATE GOVERNANCE REPORT

As a Faroese registered company listed on NASDAQ OMX Copenhagen, and on Oslo Stock Exchange, Atlantic Petroleum is obliged to comply with Faroese, Danish, and Norwegian securities law and stock exchange rules. The stock exchange rules require listed companies to take a position on corporate governance recommendations on a "comply or explain" basis. As a dual listed company, Atlantic Petroleum has chosen to base the corporate governance policy on the highest standard and thus follows both the recommendations on NASDAQ OMX Copenhagen, and Oslo Stock Exchange, with the exemptions summarised below: Atlantic Petroleum has reviewed and implemented recent changes and recommendations on Corporate Governance.

A summary of Atlantic Petroleum's non-compliance procedure and recommendations are stated below. Further information is available on the Company's website, www.petroleum.fo

Openness and Transparency

Information and publication of information:

Because of the Group's international operations, all information is published in English and, where required, Faroese.

Retirement Age

The Supervisory Board has not found it necessary to lay down a retirement age for the Supervisory Board members. The annual report contains information about the age of the Supervisory Board members.

Election Period

The members of the Supervisory Board are elected for 1 year at a time. Re-election is allowed. For the time being there is no limit of how often Board members can be re-elected.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD:

Whilst the undernoted Group remuneration policies remain, they were in effect **suspended** throughout 2016 given the market conditions, the challenges facing the Group and the downsizing activities undertaken. The key actions on remuneration in 2016 were, where-ever possible, to freeze management and staff salaries and board fees, make no bonus award nor make any LTIP awards for 2015 or 2016.

Remuneration Policy

Remuneration to the members of the Supervisory Board and the Executive Board is on the same level as comparable companies in order to attract, retain and motivate the members of the Supervisory Board.

Remuneration Policy for Senior Executives of Atlantic Petroleum

Overall Aim

The aim of Atlantic Petroleum's (the "Company") Remuneration Policy for senior executives is to provide a reward framework which ensures that key executives are appropriately attracted, retained and motivated and which is fit for purpose in the markets in which the Company operates and where it and its peer groups are listed.

Remuneration Strategy

The Company's remuneration strategy is to provide a competitive remuneration package which rewards Directors and employees fairly and responsibly for their contributions and aims to deliver superior remuneration for superior performance.

The total reward package will consist of elements such as Salary, Annual Performance Bonuses, Long Term Incentives and Pension Contributions and Other Benefits.

The guiding principles behind the setting and implementation of this policy are that:

Balanced

There should be an appropriate balance between fixed and performance-related elements and the provision of equity over the longer-term and which focuses executives on delivering the business strategy;

Competitive

Remuneration packages should be sufficiently competitive taking into account the level of remuneration paid in respect of comparable positions in similar companies within the industry;

Equitable

There should be an appropriate level of gearing in the package to ensure that executives receive an appropriate proportion of the value created for shareholders while taking into account pay and conditions throughout the remainder of the group and where the Company operates and is listed;

Risk-weighted

Remuneration should not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour. More generally, the overall remuneration policy should not encourage inappropriate operational risk; and

Aligned

Executives will be encouraged to build a meaningful holding in the Company to further align their interests with those of shareholders.

The Remuneration Committee will review on an annual basis whether its remuneration policy remains appropriate for the relevant financial year. Factors taken into account by the Remuneration Committee will include:

- overall corporate performance;
- market conditions affecting the Company;
- the recruitment market in the Company's sector;
- changing market practice; and
- changing views of institutional shareholders and their representative bodies.

Base Salary

The Remuneration Committee's policy is to provide a lower quartile salary relative to an appropriate benchmark on appointment which based on appropriate levels of individual and corporate performance will be increased to the median position with experience gained over time.
Any subsequent salary increases when an individual has attained the median benchmark will take into account factors such as:

- the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity in the E&P sector;
- the performance of the individual; and
- pay and conditions throughout the Company.

Salaries were frozen at 2015 levels.

Annual Performance Bonus

Senior executives will participate in an annual bonus arrangement which focuses on the delivery of the short-term business/strategic objectives across the following key areas:

- exploration/production targets;
- operational milestones;
- financial management and performance; and
- personal objectives

In addition to ensure affordability of any bonus, a pre-determined level of EBITDAX must be achieved before any funding is made available. These targets will be set by the Remuneration Committee each year.

The maximum bonus opportunity for key executives will be set at a rate competitive to the market – however, maximum bonus pay-out will only be earned by executives for achieving exceptional levels of performance. Mr. Ben Arabo's maximum cash bonus target is 100% of his base salary.

The structure of any bonuses paid to the CEO and other key executives will be as follows:

- any bonus of up to 25% of salary will be payable immediately in cash;
- 50% of the balance of any bonus earned above 25% of salary must be deferred in shares which will vest at the end of a two year holding period. An individual may also elect to further defer up to an additional 25% of salary, from the remaining cash element of the bonus into Company shares; and
- deferred shares which vest will be matched on a one for one basis provided that the Company's share price has not fallen over the two year holding period and there is continuity of employment.

For all other employees any bonus earned will be paid in cash or shares at the discretion of the Remuneration Committee.

No bonuses were paid for the 2016 Financial Year.

Long Term Incentive Plans

The Remuneration Committee believes that a key component of the remuneration package is the provision of equity awards to senior executives through the Long-Term Incentive Plan ("LTIP") to ensure that:

- key executives become meaningful shareholders of the Company and share in its success;
- it aligns the interests of shareholders and those of executives;
- it develops a culture which encourages strong corporate performance both on an absolute and relative basis; and
- total remuneration levels are highly attractive and competitive against the market

Share Based Payments

Nil-cost options over ordinary shares in the Company were granted to members of management and senior staff under the Atlantic Petroleum Long Term Incentive Plan (LTIP).

The options are capable of vesting after a three year period subject to continued employment and meeting stretching corporate performance conditions.

The LTIP awards form part of the Company's remuneration strategy to provide a competitive remuneration package that rewards Directors and employees fairly and responsibly for their contributions and aims to deliver superior remuneration for superior performance, whilst maintaining alignment with shareholder's interests.

We set out the two corporate performance conditions below:

Comparative Total Shareholder Return ("TSR"):
The Company's comparative TSR is compared to a comparator group of 24 quoted oil and gas exploration and production companies and;

25% of the option will vest for median performance against the comparator group;

100% of the option will vest for upper quartile performance against the comparator group; and

The option will vest on a straight-line basis for TSR performance between these levels.

Share price multiplier:
The vesting level achieved under the comparative TSR element can be multiplied upwards if the Company achieves absolute share price growth of more than 15% p.a. over the three year performance period. A

maximum multiplier of three times can be achieved for 45% p.a. absolute share price growth and awards vest on a straight-line basis between these share price performance levels.

The options awarded in 2014 to remaining participants are as follows:

Issued to	Number of plan shares
Year:	2014
Ben Arabo, CEO	8,576

The options are capable of vesting after a three year period subject to continued employment and meeting stretching corporate performance conditions. **No options were granted in 2015 or 2016**

For the CEO, Ben Arabo, the options granted in 2014 were equal to 67% of the annual base salary.

The option granted in 2014 was calculated by reference to a price of DKK 125 per share, broadly in line with the share price as at the initial public offering on the Oslo Stock Exchange on 10th December 2013. The number of shares shown above represents the figure that may be acquired by the participants, if the Group's TSR is in the upper quartile TSR of its comparator group.

Where the Company's absolute share price growth is 45% p.a. or more over the performance period, the participants would be entitled to exercise their option in respect of three times as many shares as stated above.

No award is currently expected to be made when the 2014 award vests in 2017.

Additional Benefits

In addition to salary, annual bonus and the long-term incentives, the Company, where appropriate will also provide a pension contribution and other competitive benefits.

A competitive level of pension contributions (or cash equivalent) and other ancillary benefits will be provided for all senior executives in line with market rates.

Shareholding Guidelines

The Remuneration Committee has established formal shareholding guidelines that will encourage the CEO and other participants of long-term incentive plan to retain no less than 50% of the net of tax value of awards vesting under the Company's annual bonus and long-term incentive arrangements, until such time as they have achieved a holding worth 100 per cent of salary in the case of the CEO and 50 per cent of salary for other participants. Adherence to these guidelines is a condition of continued participation in the long-term incentive arrangements. This policy ensures that the interests of executives and those of shareholders are closely aligned.

Non-Executive Directors Fees

The Non-Executive Director ("NED") fees will be structured as follows:

- A base fee will be paid for carrying out day to day duties as an NED; and
- Additional fees will be provided for extra responsibilities, for example chairing the Audit, Nominations or Remuneration committees.

Fees should be sufficiently competitive taking into account the level of remuneration paid to Non-Executives in similar companies within the industry.

These policies were implemented in 2012.

STATEMENT BY MANAGEMENT ON THE ANNUAL AND CONSOLIDATED REPORT AND ACCOUNTS

The Management and Board of Directors have today considered and approved the Annual and Consolidated Report and Accounts of P/F Atlantic Petroleum for the financial year 1st January 2016 to 31st December 2016.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU, the financial reporting requirements of NASDAQ OMX in Copenhagen, the financial reporting requirements of the Oslo Stock Exchange and additional Faroese disclosure requirements for annual reports of listed companies.

In our opinion, the accounting policies used are appropriate and the Annual and Consolidated Report and Accounts give a true and fair view of the Group's financial positions at 31st December 2016 as well as the results of the Group's activities and cash flows for the financial year 1st January 2016 to 31st December 2016.

Tórshavn 29th March 2017

Management:

Ben Arabo
CEO

Board of Directors:

David A. MacFarlane
Chairman

Knud Nørve
Deputy Chairman

Jan Muller

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of P/F Atlantic Petroleum

Opinion

In our opinion, the consolidated annual accounts and the annual accounts give a true and fair view of the assets and liabilities, of the financial position of the group and the company as at 31 December 2016, and of the results of the group and the company operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU.

Identification

We have audited the consolidated annual accounts and the annual accounts of P/F Atlantic Petroleum for the financial year 1 January - 31 December 2016, which comprise Income Statement, Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, and notes, including a summary of accounting policies used, for both the group and the company, as well as consolidated statement of cash flows. The consolidated annual accounts and the annual accounts are prepared in accordance with the International Financial Reporting Standards as adopted by the EU.

Basis of opinion

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in Faroe Islands. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the consolidated annual accounts and the annual accounts".

Independence

We are independent of the group in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in Faroe Islands, and we have fulfilled our additional ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter concerning the full comprehension of the Annual Accounts

We draw attention to Note 1.1 in the annual accounts, where management is describing the shift in strategic focus and renewed funding. We did not modify Our Opinion on this basis.

Key Audit matters

Key audit matters are the matters, which we consider central to our audit of the annual and consolidated accounts for 2016. The matters are considered during our audit of the accounts in their entirety and when forming our opinion. We do not provide separate opinions on these matters.

Key Audit matter	***Our response to the matter during our audit***
None Key Audit matters	
Due to reduced activity of the group, it is our assessment, that there are no significant Audit matters that need highlighting.	Since no matters are identified, no response is required.

Statement on the management's review

The management is responsible for the management's review.

Our opinion on the consolidated annual accounts and the annual accounts does not cover the management's review, and we do not express any kind of assurance opinion on the management's review.

In connection with our audit of the consolidated annual accounts and the annual accounts, our responsibility is to read the management's review and in that connection consider whether the management's review is materially inconsistent with the consolidated annual accounts and the annual accounts or our knowledge obtained during the audit, or whether it otherwise appears to contain material misstatement.

Furthermore, it is our responsibility to consider whether the management's review provides the information required under the International Financial Reporting Standards as adopted by EU.

Based on the work we have performed, we believe that the management's review is in accordance with the consolidated annual accounts and the annual accounts and that it has been prepared in accordance with the requirements of the International Financial Reporting Standards as adopted by EU. We did not find any material misstatement in the management's review.

Responsibilities for the accounts and the audit

The management's responsibilities for the consolidated annual accounts and the annual accounts

The management is responsible for the preparation of consolidated annual accounts and annual accounts that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by EU. The management is also responsible for such internal control as the management determines is necessary to enable the preparation of consolidated annual accounts and annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts and the annual accounts, the management is responsible for evaluating the group's and the company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the consolidated annual accounts and the annual accounts, unless the management either intends to liquidate the group or the company or to cease operations, or if it has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated annual accounts and the annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts and the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands will always detect a material misstatement when it exists. Misstatements may arise due to fraud or error and may be considered material if, individually or on aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of these consolidated annual accounts and annual accounts.

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands, we exercise professional evaluations and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated annual accounts and the annual accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or overriding of internal control.

- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal controls.

- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's preparation of the consolidated annual accounts and the annual accounts being based the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts and the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the consolidated annual accounts and the annual accounts, including the disclosures in the notes, and whether the consolidated annual accounts and the annual accounts reflect the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or the business activities within the group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control that we identify during our audit.

We also provide a statement to the Board of Directors stating, that we adhere to the relevant ethical requirements relating to our independence, and provide information on any relation, which may reasonably be considered to influence our independence, and where relevant, security measures employed.

Based on the issues communicated to the Board of Directors, we determine which issues we consider key to our audit of the annual and consolidated accounts for the current period, and hence Key Audit Matters. We describe these matters in our report, unless legislation or other legal impediments prohibit publication of the matters, or in the extremely rare circumstances, where we determine, that matters cannot be described in our Auditors Report, because negative implications thereof may reasonably be expected to outweigh the public interest in the information provided by description of Key Audit Matters.

Tórshavn, 29. March 2017

Januar P/F
løggilt grannskoðanarvirki
State authorized Public Accountants
Company reg.no. 5821

Heini Thomsen
State Authorised Public Accountant

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2016

DKK 1,000	Note	2016	2015
Revenue	3	10,224	186,722
Costs of sales	4	51,556	-607,452
Gross profit/loss		**61,780**	-420,729
Exploration expenses		-62,064	-337,282
Pre-licence exploration cost		-7,847	-7,852
General and administration cost	6,7,8	-26,867	-37,893
Depreciation PPE and intangible assets	10	-4,767	-11,122
Other operating cost/income	9	0	9,066
Operating loss	3	**-39,765**	-805,813
Interest income and finance gains		20,420	1,816
	5		
Interest expenses and other finance costs		-11,120	-29,845
Loss before taxation		**-30,465**	-833,842
Taxation	11	42,855	269,851
Profit/Loss after taxation		**12,390**	-563,990
Earnings per share (DKK):			
Basic	13	3.35	-152,52
Diluted	13	3.35	-152,52

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2016

DKK 1,000	**2016**	2015
Items that may be recycled in P/L:		
Profit/loss for the period	12,390	-563,990
Exchange rate differences	9,507	41,386
Value of Futures contracts		0
Total comprehensive Income/loss in the period	**21,897**	**-522,604**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DKK 1,000	Note	At 31st Dec 2016	At 31st December 2015
Non-current assets			
Goodwill	15	0	0
Intangible assets	16	34	9,485
Intangible exploration and evaluation assets	17	0	27,042
Tangible development and production assets	18	62,305	70,783
Property plant and equipment	19	219	992
Tax repayable		35,566	0
Deferred tax asset	28	25,329	16,619
		123,453	124,921
Current assets			
Inventories	21	0	7,849
Trade and other receivables	22	52,380	58,993
Tax repayable		0	71,978
Financial assets	27	0	0
Cash and cash equivalents	24,27	4,924	42,049
		57,304	180,869
Total assets		**180,757**	305,790
Current liabilities			
Exploration finance facility	24,27	2,196	70,786
Short term bank debt	24,27	47,224	39,910
Short term liabilities		0	0
Trade and other payables	23	122,859	158,538
Financial liabilities		0	0
Current tax payable		445	519
		172,724	269,753
Non-current liabilities			
Exploration finance facility		20.455	0
Long term bank debt	24	20.289	19,500
Convertible loan facility		0	
Long term provisions	26	49,962	118,551
Deferred tax liability	28	0	0
		90,706	138,051
Total liabilities		**263,430**	407,804
Net assets		**-82,673**	-102,014
Equity			
Share capital	29	369,786	369,786
Share premium account		233,444	233,444
Share based bonus schemes – LTIP		619	3,174
Translation reserves		101,209	91,702
Retained earnings		-787,731	-800,121
Total equity shareholders´ funds		**-82,673**	-102,014

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2016

DKK 1,000	Share capital	Share premium account	Share based Payments LTIP and Bonus	Futures contracts value	Translation reserves	Retained earnings	Total
At 1st January 2015	**369,786**	**233,444**	**5,766**	**0**	**50,316**	**-236,131**	**423,181**
LTIP awarded in the period	0	0	-2,591	0	0	0	**-2,591**
Change in translation reserves	0	0	0	0	41,386	0	**41,386**
Result for the period	0	0	0	0	0	-563,990	**-563,990**
At 1st January 2015	**369,786**	**233,444**	**3,175**	**0**	**91,702**	**-800,121**	**-102,014**
LTIP awarded in the period, net	0	0	-2,556	0	0	0	**-2,556**
Translation reserves	0	0	0	0	9,507	0	**9,507**
Result for the period	0	0	0	0	0	12,390	**12,390**
At 31st Dec. 2015	**369,786**	**233,444**	**619**	**0**	**101,209**	**-787,731**	**-82,673**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December 2016

DKK 1,000	2016	2015
Operating activities		
Operating loss	-39,765	-805,813
Allocated consolidated capitalised interest	0	1,527
Unrealised cost/gain on futures contracts – oil price hedging	0	20,560
Impairment on exploration and evaluation assets	61,960	337,052
Relinquishment and disposal of licences	104	230
Depreciation, depletion and amortisation	4,767	71,714
Impairment on producing licences	-66,169	389,172
Change in inventories	7,068	10,409
Change in trade and other receivables	46,166	79,884
Change in trade and other payables	-10,259	48,988
Interest revenue and finance gain received	20,420	1,816
Interest expenses and other finance cost	-11,120	-29,845
Income taxes	35,204	84,410
Net cash flow provided by operating activities	48,376	206,104
Investing activities		
Capital expenditure	-38,106	-228,558
Net cash used in investing activities	-38,106	-228,558
Financing activities		
Change in share capital	0	0
Change in share premium cost/cost of capital raise	0	0
Change in short term debt	-65,116	-46,674
Change in long term debt	21,244	-19,500
Net cash flow provided from financing activities	-43,872	-66,174
Change in cash and cash equivalents	-33,602	-88,628
Cash and cash equivalents at the beginning of the period	42,049	111,989
Currency translation differences	-3,523	18,688
Total cash and cash equivalents at the beginning of the period	38,526	130,677
Cash and cash equivalents at the end of the period	4,924	42,049

NOTES TO THE CONSOLIDATED ACCOUNTS

Note 1.1 Going Concern

The severe downturn in the E&P sector since July 2014 has made Atlantic Petroleum reconsider the business model significantly. Atlantic Petroleum will no longer participate in exploration ventures. The focus will be looking for development and production opportunities and M&A opportunities in the Eurasian Region.

The Company has no longer any producing North Sea fields, and is currently not a hydrocarbon producing entity. Therefore, the group is not exposed to further liabilities from negative cash flows from mature hydrocarbon production. The revenue expected in 2018 and onwards from the UK Orlando field is a 2 - 4.35% revenue share requiring no further investment.

The entire organisation has been adapted to the new business model and the cash burn rate from 2017 and onwards will be significantly reduced compared to previous years.

Existing financing agreements have been renegotiated and refinanced, and the limited cash requirement to sustain the current activity levels and further funding for potential new ventures are secured for the next two years through the GBP 8MM convertible loan agreement with London Oil and Gas.

On this basis management has decided to prepare and present the Annual and Consolidated Accounts for 2016 on a going concern basis.

1.2 Corporate information

The consolidated financial statements of the Group, which comprise P/F Atlantic Petroleum, as the parent, and all its subsidiaries, for the year ended 31st December 2016 was authorised for issue in accordance with a resolution of the Directors on 29th March 2017.

P/F Atlantic Petroleum is a public limited company incorporated and domiciled in the Faroe Islands and listed on the exchanges on NASDAQ OMX Copenhagen and Oslo Stock Exchange. The principal activities of the Company and its subsidiaries (the Group) are Oil & Gas exploration, appraisal, development and production in the Faroe Islands, United Kingdom, Norway, Netherlands and Ireland. Financial statements for the Group's ultimate parent are presented on the Group's website: www.petroleum.fo.

2.1 Basis of preparation

Accounting Convention

The Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the Council of the European Union (EU) and the additional Faroese disclosure requirements according to the Faroese Company Accounts Act, the financial reporting requirements of NASDAQ OMX Copenhagen and Oslo Stock Exchange for listed companies.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The financial information has been prepared on a historical cost basis and fair value conventions on the basis of the accounting policies set out below. The consolidated financial statements are presented in DKK and all values rounded to the nearest thousand, except where othewise indicated.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of P/F Atlantic Petroleum and entities controlled by P/F Atlantic Petroleum (its subsidiaries) made up at the end of each accounting period.

Control is achieved where P/F Atlantic Petroleum has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The interests in the subsidiaries are eliminated with the Parent Company’s proportionate ratio of the fair value of the subsidiaries assets, liabilities and provisions measured at the date of acquisition or establishment of the subsidiary.

2.2 Significant accounting judgements, estimates and assumptions

Estimation uncertainty

Determining the carrying amount of some assets and liabilities requires estimation of the effects of future events on those assets and liabilities at the balance sheet date.

In the opinion of Atlantic Petroleum’s management, the following estimates and associated judgements are material for the financial reporting:

• determination of underground oil and gas reserves. The assessment of reserves is a complex process involving various parameters such as analysis of geological data, commercial aspects, etc., each of which is subject to uncertainty. The assessment is material to the determination of the recoverable amount and depreciation profile for oil and gas assets,

• determination of the recoverable amount and depreciation profile for production assets. Determination of the recoverable amount is based on assumptions concerning future earnings, oil prices, interest rate levels, etc., each of which is subject to uncertainty. The depreciation profile has been determined on the basis of the expected use of the production assets, and is consequently subject to the same risks relating to reserves, future earnings, etc., as apply to the determination of the value of the production assets,

• determination of abandonment obligations. Provisions for abandonment obligations are subject to particular uncertainty as far as concerns the determination of the costs associated with removal of the production assets, and the timing of the removal,

• and assessment of contingent liabilities and assets.

The estimates applied are based on assumptions which are sound, in management’s opinion, but which, by their nature, are uncertain and unpredictable. The assumptions may be incomplete or inaccurate and unforeseen events or circumstances may occur. Moreover, the Atlantic Petroleum Group is subject to risks and uncertainties that may cause actual results to differ from these estimates. Special risks for the Atlantic Petroleum Group are described in the section Director's Report under Risk Management.

Assumptions for forward-looking statements and other estimation uncertainties at the balance sheet date that involve a considerable risk of changes that may lead to a material adjustment in the carrying amount of assets or liabilities within the coming financial year are disclosed in the notes.

The Group's intangible exploration and evaluation assets, amounts to DKK 0MM (2015: DKK 27.0MM) and the Group's development and production assets amounts to DKK 62.3MM at 31st December 2016 (2015: DKK 70.8MM). The Group's abandonment obligations as of 31st December 2016 amounts to DKK 50.0MM (2015: DKK 118.5MM).

2.3 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Interest in Joint Ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Acquisitions of oil and gas properties are accounted for under the purchase method where the transaction meets the definition of a business combination. Transactions involving the purchases of an individual field interest, or a group of field interests, that do not qualify as a business combination are treated as asset purchases, irrespective of whether the specific transactions involved the transfer of the field interests directly or the transfer of an incorporated entity. Accordingly no goodwill and no deferred tax gross up arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Proceeds on disposal are applied to the carrying amount of the specific exploration and evaluation asset or development and production asset disposed of and any surplus is recorded as a gain on disposal in the income statement.

Investments in joint ventures are recognised by proportionate consolidation at the share of the jointly controlled assets and liabilities, classified by nature, and the share of revenue from the sale of the joint product, along with the share of the expenses incurred by the jointly controlled operation. Liabilities and expenses incurred in respect of the jointly controlled operation are also recognised.

Translation of Foreign Currencies

For each individual entity, which is recognised in the consolidated accounts, a functional currency is determined in which the entity measures its results and financial position. The functional currency is the currency of the primary economic environment in which the entity operates. Transactions in other currencies than the functional currency are transactions in a foreign currency.

A foreign currency transaction is, on initial recognition, recorded in the functional currency, at the spot exchange rate between the functional currency and the foreign currency on the date of the transaction.

At each balance sheet date receivables, payables and other monetary items in foreign currency are translated to the functional currency using the closing rate.

Exchange differences arising on the settlement of monetary items or on translating monetary items, at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, shall be recognised in the income statement under financial revenues and expenses.

On consolidation the results and financial position of the Group's individual entities with different functional currencies than the Group's presentation currency (DKK) are translated into the Group's presentation currency using the following procedure:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet.
- Income and expenses are translated at exchange rates at the dates of the transactions.

All resulting exchange differences are recognised directly in equity as a separate component of equity.

For practical reasons an average rate for the period that approximates the exchange rates at the dates of the transactions is used.

Income Statement

Revenue

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, sales taxes, excise duties and similar levies. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Sale of hydrocarbons is recognised when transfer of risk to the buyer has taken place. Sale of hydrocarbons is measured at fair value and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Cost of Sales

Cost of sales comprises cost directly related to the operation of oilfields, cost of goods sold, depreciations, lease payments and other costs related to the operation of producing oil fields. Rentals payable for assets under operating leases are charged to the income statement on a straight-line basis over the lease term. Impairment of development and production assets is also recognised here.

Pre-licence Exploration Cost

Pre-licence exploration expenses comprise cost incurred prior to having obtained the legal rights to explore an area and other general exploration costs which are not specifically directed to a licence and economic use is of less than a year.

Exploration Expenses

Exploration expenses comprise the cost of the impairment of exploration and evaluation assets and relinquishment cost.

General and Administration Cost

Administrative expenses comprise employment costs to the management and administration, staff, depreciations and other costs related to the general administration of the Group.

Financial Income and Expenses

Financial income and expenses comprise interests, currency differences, dividend income from investments and amortisation of financial assets and liabilities.

Taxation

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off corporation tax assets against corporation tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

By the acquisition of Emergy Exploration AS – now Atlantic Petroleum Norge AS, the Group is subject to the Norwegian oil taxation regime for the operations on the Norwegian Continental shelf. Under this regime oil companies which are not in a tax paying position may claim a 78% refund of their exploration costs, limited to the taxable loss for the current year. The tax refund is unconditional in terms of contingent operation of the companies concerned. The refund is paid out in December in the following year. The portion of the tax receivable which is due to be received within one year from the balance sheet date is classified as a current asset.

Statement of Financial Position

Goodwill

Goodwill is initially recognised and measured as the difference between on the one hand, the cost price of the acquired company, the value of minority interests in the acquired company and the acquisition-date fair value of previously held equity interests, and, on the other hand, the fair value of the acquired assets, liabilities and contingent liabilities.

When recognising goodwill, the goodwill amount is allocated to those of the Group's activities that generate independent cash flows (cash flow generating units). The definition of cash generating units is in accordance with the internal managerial accounting and reporting in the Group. Goodwill is not amortised but is tested for impairment at least once a year.

Intangible Assets

Intangible Assets

Items of intangible assets are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement under General and Administration costs item on a straight-line basis over the estimated useful lives. The estimated useful lives are as follows:

Office equipment 3 – 10 years

The residual value is reassessed annually.

Exploration and Evaluation Assets

The Group applies the successful efforts method of accounting for Exploration and Evaluation (E&E) costs, having regard to the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources.

Under the successful efforts method of accounting all licence acquisition, exploration and appraisal costs are initially capitalised at cost in well, field or specific exploration cost centres as appropriate, pending determination. Expenditure, incurred during the various exploration and appraisal phases, is then written off unless commercial reserves have been established or the determination process has not been completed.

The amounts capitalised include payments to acquire the legal right to explore, licence fees, cost of technical services and studies, seismic acquisition, exploratory drilling and testing and other directly attributable cost.

Finance costs that are directly attributable to E&E assets are capitalised in accordance with IAS 23. In the Parent Company these costs are expensed to the Income Statement.

Cost incurred prior to having obtained the legal rights to explore an area (pre-licence cost) are expensed directly to the income statement under Pre-licence exploration cost as they have incurred.

E&E assets are not amortised prior to the conclusion of appraisal activities.

Intangible E&E assets related to each exploration licence/prospect are carried forward, until the existence (or otherwise) of commercial reserves has been determined subject to certain limitations including review for indications of impairment. Every year or if there otherwise are indications of impairment the assets will be tested for impairment. Where, in the opinion of the Directors, there is impairment, E&E assets are written down accordingly, through the Income Statement under Exploration Expenses.

If commercial reserves have been discovered and a field development plan has been approved by the authorities, the carrying value of the relevant E&E asset is reclassified as a tangible asset, development and production asset. Before the reclassification the asset will be tested for indications of impairment. If however, commercial reserves have not been found, the capitalised cost are charged to the profit and loss account under Exploration Expenses after conclusion of appraisal activities.

Tangible Assets

Development and Production Assets

Development and production assets are accumulated generally on a field by field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in the accounting policy for E&E assets above.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning. In the Parent Company finance costs are expensed to the profit and loss account.

The net book values of producing assets are depreciated generally on a field-by-field basis using the unit-of-production (UOP) method by reference to the ratio of production in the period and the related commercial reserves of the field.

An impairment test is performed once a year or whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount.

The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows, derived from expected production of commercial reserves.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement under the relevant item. The cash-generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash-generating unit where the cash flows of each field are interdependent. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The depreciation and impairment are charged to the Income Statement under Cost of sales.

Decommissioning
Provision for decommissioning is recognised in full when the liability occurs. The amount recognised is the present value of the estimated future expenditure. A corresponding tangible fixed asset is also created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

Property, Plant and Equipment
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement under General and Administration costs item on a straight-line basis over the estimated useful lives. The estimated useful lives are as follows:

Operating assets and office equipment 3 – 10 years

The residual value is reassessed annually.

Financial Instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Inventories
The difference between cumulative production and lifted (sold) volumes is crude inventory and will be valued at the market rate at the period end with the inventory adjustments being posted through Cost of Sales.

Trade and Other Receivables
Trade and other receivables are recognised at amortised costs and are reduced by appropriate allowances for estimated irrecoverable amounts.

Bank Deposits (Cash and Cash-Equivalents)
Cash and cash equivalent includes cash in hand and deposits held at call with banks with maturity dates of less than three months.

Equity, Translation Reserve
The translation reserve comprises foreign exchange rate adjustments arising on translation of the financial statements of foreign entities with a functional currency that is different from the presentation currency (DKK) of Atlantic Petroleum Group.

Bank Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated 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. 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 balance sheet date.

Other Payables
Other payables are stated at their nominal value.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material. Included in the item Provisions is provision for decommissioning costs.

Share Based Payments

Equity-settled share-based payments are initially measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of nonmarket-based vesting conditions.

The fair value is determined by using generally accepted valuation techniques, such as the Monte Carlo model.

Cancellations or settlements of equity settled share-based payments are treated as an acceleration of vesting and as a result any amounts that otherwise would have been recognised for services received over the remainder of the vesting period are recognised immediately in the income statement. When options are exercised the payments from employees are recognised as an increase in the Group's share capital and share premium reserve.

Segment Reporting

In the opinion of the directors the operations of the Group comprise one class of business, the production and sale of hydrocarbons. Its primary segment reporting will be by geographical region.

Cash Flow Statement

The cash flow statement is prepared according to the indirect method and presents cash flow from operations, investments and financing activities.

Cash Flow from Operating Activities

Cash flows from operating activities are presented using the indirect method, whereby the net profit or loss for the period is adjusted for the effects of non-cash transactions, accruals, tax-payments and items of income or expense associated with investing or financing cash flows.

Cash Flow from Investment Activities

Cash flows from investment activities comprises cash flows in conjunction with buying and selling entities and activities, buying and selling intangible, tangible and other non-current assets and buying and selling securities which are not recognised as cash and cash equivalents.

Cash Flow from Financing Activities

Cash flows from financing activities comprise the raising of new share capital and loans, amortisation on loans and payment of dividends.

2.4 Changes in accounting policies and disclosures

New and amended standards and interpretation

The Consolidated Financial Statements are presented in accordance with the accounting policies adopted previous financial years and which are consistent with those applied in the previous financial year.

There were a number of new standards and interpretations, effective from 1st January 2014, that the Group applied. These included IFRS 10, IFRS 12 and IAS 27 Investment Entities, IAS 19 Defined Benefit Plans:

Employee Contributions — Amendments to IAS 19, IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32, IAS 36 Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36, IAS 39 Novation of Derivatives and Continuation of Hedge Accounting — Amendments to IAS 39, IFRIC 21 Levies (Amendments). None of these standards required a restatement of previous financial statements or did result in disclosures being changed.

Several other amendments apply for the first time. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new relevant standard and/or amendment is described below. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

IFRS 10 Consolidated Financial Statement

IFRS 10 replaced the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities. The changes introduced by IFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In the standard an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard did not have any effect for the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

The application of IFRS 11 and IAS 28 did not impact the Group's accounting for its interests in joint arrangements because the Group determined that its joint arrangements that were previously classified as jointly controlled assets, were classified as joint operations under IFRS 11. As a result, the group's previous methods of accounting for its joint arrangements continue to be appropriate under IFRS 11.

IFRS 12

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgments made to determine whether it controls another entity. The new disclosures will assist the users of the financial statements to make their own assessment of the financial impact in cases where management were to reach a different conclusion regarding consolidation — by providing more information about unconsolidated entities. The standard did not have any significant effect for the Group.

IAS 36 Impairment of Assets

IAS 36 is amended to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. The change is not considered to have any major

impact on the Group, as the Group does not use fair value less cost of disposal to estimate recoverable amount. The amendment also removes the requirement for an entity to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated, instead such disclosure is required when an impairment loss has been recognised or reversed.

The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. Management believes that implementation of these standards and interpretations do not have a material affect on the Consolidated Financial Statements of the Group.

2.5 Standards issued but not yet effective

There are no standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's financial statements that the Group reasonably expects will have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards and interpretations, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1st January 2018, with early application permitted, but is not endorsed by the EU yet. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 from 2009, 2010 and 2013 is permitted if the date of initial application is before 1st February 2015. The adoption of IFRS 9 may have an effect on the classification and measurement of the Group's financial assets, but is not expected to impact the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1st January 2017 with early adoption permitted, but it is not endorsed by the EU yet. There have been some early indicators that the entitlement method currently applied by the Group will not be allowed under IFRS 15, but this has not yet been concluded. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1st January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group, as acquisitions in scope of the amendments have been treated as business combinations under the current accounting policies of the Group.

Annual improvements 2010-2012, 2011-2013 and 2012-2014 cycles

The changes are primarily in order to remove inconsistencies and to clarify the wording of standards and interpretations. There are separate transition provisions for each standard (and the 2012-2014 cycle is not yet approved by the EU). The changes are not expected to have significant effect for the Group.

3 Geographical segmental analysis

DKK 1,000	**2016**	2015
Revenues by origin:		
Faroe Islands	**0**	0
United Kingdom	10,224	183,376
Norway	0	3,346
Other	0	0
	10,224	186,722
Operating loss/profit by origin:		
Faroe Islands	-2,851	-4,153
United Kingdom	28,515	-579,440
Norway	-59,466	-206,420
Other	-6,963	-15,800
	-39,765	-805,813

4 Cost of sales

DKK 1,000	**2016**	2015
Operating costs	**7,545**	155,070
Produced oil in inventory at market value	7,068	1,091
Amortisation and depreciation, PPE:		
Oil and gas properties	0	62,119
Impairment	-66,169	389,172
	-51,556	607,452

Mainly relating to the settlement agreement on Chestnut.

5 Interest income & expense and finance gain & cost

DKK 1,000	**2016**	2015
Interest income and finance gain:		
Short term deposits	471	
Unwinding of discount on decommissioning provision	727	
Exchange differences	19,222	1,816
	20,420	1,816
Interest expense and other finance cost:		
Bank loan and overdrafts	10,987	10,732
Creditors	43	7
Unwinding of discount on decommissioning provision	0	4,509
Others	90	215
Exchange differences	0	14,382
	11,120	29,845

6 Auditors' remuneration

DKK 1,000	**2016**	2015
Audit services:		
Statutory and Group audit, parent company auditor	**140**	530
Review of interim Financial Statements	**217**	326
Audit subsidiaries	**674**	881
	1,031	1,737
Tax services:		
Consulting and advisory services	**101**	86
	101	86
Other services:		
Consultancy services	0	0
	0	0

7 Employee cost

DKK 1,000	**2016**	2015
Staff costs, including executive directors:		
Wages and salaries		
Board of directors	**1,067**	1,489
Managing Director – CEO***	**1,930**	1,942
Administration, technical staff and other emplyees	**20,597**	31,624
	23,594	35,054
Share based payment – LTIP accounting charge****:		
Managing Director – CEO	**-674**	-1,072
Administration, technical staff and other employees	**-1,795**	-1,666
	-2,469	-2,738
Pension costs:		
Managing Director – CEO	**54**	39
Administration, technical staff and other employees	**423**	1,522
	477	1,561
Social security costs	**2,957**	4,035
Other staff costs	**999**	1,585
	3,956	5,620
Total employee costs	**25,558**	39,496

	2016	2015
Average number of employees during the year:		
Technical and operations	**9**	18
Management and administration	**5**	8
	14	26

Following the completion of the sale of Atlantic Petroleum Norway's activties to M Vest Energy, there remains one full time employee of Atlantic Petroleum.

* The Board of Directors' remuneration by person and the CEO's remuneration is disclosed in the Director's Report - Directors' Interests and Remuneration.

** Staff numbers include Managers.

*** The notice of termination for the CEO is one year.

**** See also note Share based payments below.

8 Share based payments

	At 31st December 2016 Number of options	Weighted average exercise price DKK	At 31st December 2015 Number of options	Weighted average exercise price DKK
1st January	45,545	118.79	67,897	135.75
Granted during the period	0	0.00	0	0.00
Lapsed during the period	-2,469	118.79	-1,620	130.05
Exercised during the period	0	0.00	0	0.00
Expired during the period	-24,550	118.79	-22,352	169.50
Outstanding at end of period	**18,526**	**118,79**	45,545	118.79
Exercisable at end of period	**0**	**0**	0	0

9 Other operating cost/income

DKK 1,000	**2016**	2015
Other operating income related to unrealised gains on futures	**0**	-20,560
Other operating income related to sales of licenses	**0**	29,612
Other operating income relaed to sales of equipment	**0**	14
	0	9,066

10 Depreciation

DKK 1,000	**2016**	2015
Depreciations included in general and administration costs	**4,767**	11,122
	4,767	11,122

11 Tax

DKK 1,000	2016	2015
Current tax :		
Tax repayable/(payable) in UK	0	3,907
Tax repayable in Norway	35,204	77,503
Tax payable in Ireland	0	0
Total current tax	**35,204**	80,876
Deferred tax:		
Deferred tax cost in UK	0	0
Deferred tax income in UK	0	110,402
Deferred tax income/cost in Norway	7,651	78,040
Total deferred tax	**7,651**	188,441
Tax credit/tax on loss/profit on ordinary activities	**42,855**	269,851

12 Dividend

No dividend is proposed. (2016: DKK Nil)

13 Earnings/loss per share

The calculation of basic earnings per share is based on the profit/loss after tax and on the weighted average number of Ordinary Shares in issue during the year.

Basic and diluted earnings per share are calculated as follows:

DKK 1,000	Profit/loss after tax		Weighted average number of shares		Earnings per share	
	2016	2015	**2016**	2015	**2016**	2015
Basic	12,390	-563,990	3,697,863	3,697,863	3.35	-152.52
Diluted	12,390	-563,990	3,697,863	3,697,863	3.35	-152.52

15 Goodwill

DKK 1,000	2016	2015
At 1st January	**0**	51,917
Impairment	**0**	-53,800
Exchange movements	**0**	1,883
At 31st December	**0**	0

16 Intangible assets

DKK 1,000	2016	2015
Costs		
At 1st January	39,866	38,178
Exchange movements	-277	-1,611
Additions/Adjustments	-32,851	3,299
At end of period	**6,738**	39,866
Amortisation and depreciation		
At 1st January	30,381	21,602
Exchange movements	-1,094	-955
Charge this period	-22,583	10,379
At end of period	**6,704**	30,381
Net book value at end of period	**34**	9,485

17 Oil and gas – Intangible exploration and evaluation assets

DKK 1,000	2016	2015
Costs		
At 1st January	27,042	258,653
Exchange movements	-2,684	16,836
Additions	37,582	26,773
Disposal/relinquishment of licences	-104	-230
Explorations expenditures written off/sold	-61,836	-274,990
Consolidated interest written off	0	0
At end of period	**0**	27,042

The amounts for intangible E&E assets represent the active exploration projects. These amounts will be written off to the income statement as exploration expense unless commercial reserves are established or the determination process is not completed and there are no indications of impairment. The outcome of ongoing exploration, and therefore whether the carrying value of E&E assets will ultimately be recovered, is inherently uncertain.

18 Oil and gas – Tangible development and production assets

DKK 1,000	2016	2015
Costs		
At 1st January	1,559,809	1,353,864
Exchange movements	-216,025	82,996
Additions	-245,329	122,949
At end of period	**1,098,455**	1,559,809
Amortisation and depreciation		
At 1st January	1,489,026	984,785
Exchange movements	-194,012	52,950
Depreciation, charge	-184,389	62,119
Impairment, charge	-74,475	389,172
At end of period	**1,036,150**	1,489,026
Net book value at end of period	**62,305**	70,783

Depreciation and amortisation for oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proved and probable reserves at the end of the period plus production in the period, on a field-by-field basis. Proved and probable reserve estimates are based on a number of techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants. However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

19 Property, plant and equipment assets

DKK 1,000	2016	2015
Costs		
At 1st January	4,738	5,410
Exchange movements	-222	38
Additions	-1,780	-710
At end of period	**2,736**	4,738
Amortisation and depreciation		
At 1st January	3,746	3,374
Exchange movements	-235	31
Charge this period	-994	341
At end of period	**2,517**	3,746
Net book value at end of period	**219**	992

20 Investments and associates

Principal subsidiary undertakings of the Parent Company, all of which are 100 per cent owned, are as follow:

Name of Company	Business and area of operation	Country of incorporation or registration
Atlantic Petroleum Norge AS	Exploration, development and production, Norway	Norway
Atlantic Petroleum UK Limited	Exploration, development and production, UK	England and Wales
Atlantic Petroleum (Ireland) Limited*	Exploration, development and production, Ireland	Republic of Ireland
Atlantic Petroleum North Sea Limited*	Exploration, development and production, UK	England and Wales
Volantis Netherlands B.V.*	Exploration, development and production, Netherlands	Netherlands

* Held through subsidiary undertaking.

Volantis Netherlands B.V. is in the process of being liquidated

21 Inventories

DKK 1,000	**2016**	2015
Chestnut	0	7,849
Ettrick	0	0
Blackbird	0	0
Net assets	0	7,849

22 Trade and other receivables

DKK 1,000	**2016**	2015
Trade receivables	11,766	10,391
Prepayments and accrued income	382	1,501
Other taxes and VAT receivable	462	990
Other receivables	39,770	46,111
Net assets	52,380	58,993

All trade and other receivables are due within one year except for the Ettrick and Blackbird Trust funds DKK 39.1MM in prepayments. The carrying values of the trade and other receivables are equal to their fair value as at the balance sheet date.

23 Trade and other payables

DKK 1,000	**2016**	2015
Trade payables*	117,031	140,46
Accrued expenses	345	769
Other taxes and VAT payable	0	0
Other payables	5,483	17,300
	122,859	158,538

* Trade payables consist partly (DKK94,673) of a demand for funds to be placed in Trust Accounts for the abandonment of Ettrick and Blackbird.
All trade and other payables are due within one year.

The carrying values of the trade and other payables are equal to their fair value as at the balance sheet date. The London Oil and Gas loan agreement completed in March 2017. Draw downs prior to this date are shown in trade payables.

24 Cash, short and long term debt

DKK 1,000	**2016**	2015
Cash:		
Cash at bank and in hand	4,924	42,049
Total cash	4,924	42,049
Short term bank loans	49,421	110,697
Other short term loans		0
Total short term borrowings	49,421	110,697
Long term bank loans	20,289	19,500
Other long term loans		0
Total long term borrowings	20,289	19,500

The borrowings are repayable as follows:

DKK 1,000	**2016**	2015
Bank loans analysed by maturity		
Within one year	49,421	110,697
In one to five years	20,289	19,500
More than five years	0	0
	69,689	130,197

At year end 2016 the total short- and long-term loans amounted to DKK 69.7MM (2015: DKK 130.2MM).

25 Obligations under leases

There are no remaining production installation leases that Atlantic Petroleum is a party to.

26 Provisions for long-term liabilities and charges

DKK 1,000	**2016**	2015
Decommissioning costs:		
At 1st January	118,551	187,381
Exchange movements	-15,786	1,390
Addition of future decommissioning costs during the year	-52,804	-74,728
Unwinding of discount on decommissioning provision	0	4,509
Decommissioning	0	0
At 31st December	49,962	118,551
Total provision	49,962	118,551

The decommissioning provision represents the present value of decommissioning costs relating to the oil and gas interests, which are expected to be incurred between 2015 and 2031. These provisions have been created based on operators' estimates. Based on the current economic environment, assumptions have been made which the management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time.

Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

The decommissioning liabilities will be the subject of further discussions with the partners in Ettrick and Blackbird on a potential settlement agreement and may therefore be subject to further adjustments.

27 Financial instruments

The Group's activities expose it to financial risks of changes, primarily in oil and gas prices, but also foreign currency exchange and interest rates. The Group use derivative financial instruments to hedge certain of these risk exposures.

Interest rate risk profile of financial liabilities
The interest rate profile of the financial liabilities of the Group as at 31st December was:

DKK 1,000	Fixed rate	Floating rate	Total
2016	**DKK**	**DKK**	**DKK**
DKK		67,542	67,542
NOK		22,622	22,622
Total		**90,164**	**130,197**
2015			
DKK		59,411	59,411
NOK		70,786	70,786
Total		**130,197**	**130,197**

The floating rate comprises bank borrowings bearing interest at rates set by reference to DKK CIBOR exposing the Group to a cash flow interest rate risk.

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the group as at 31st December was:

DKK 1,000	Fixed rate	Floating rate	Total
2016	**DKK**	**DKK**	**DKK**
Held in DKK		214	214
Held in GBP		72	72
Held in USD		3	3
Held in EUR		11	11
Held in NOK		4,625	4,625
Total		**4,924**	**4,924**
2015			
Held in DKK		672	672
Held in GBP		7,691	7,691
Held in USD		11,329	11,329
Held in EUR		144	144
Held in NOK		22,213	22,213
Total		**42,049**	**42,049**

The floating rate cash and short-term deposits consists of cash held in interest-bearing current accounts by reference to DKK CIBOR.

The fair values of the financial assets and financial liabilities are:

DKK 1,000	**2016 Carrying amount DKK**	**2016 Estimated fair value DKK**	2015 Carrying amount DKK	2015 Estimated fair value DKK
Primary financial instruments held or issued to finance the Group's operations:				
Cash and short-term deposits	4,924	4,924	42,049	42,049
Bank loans and credit facility	-49,420	-49,420	-110,697	-110,697
Long-term bank loan	-20,289	-20,289	-19,500	-19,500
Derivative financial instruments held or issued to hedge the Group's exposure on expected future sales:				
Forward commodity contracts - net	0	0	0	0

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction, other than in a forced or liquidated sale. Where available, market values have been used to determine fair values. The estimated fair values have been determined using market information and appropriate valuation methodologies. Values recorded are indicative and will not necessarily be realised. Non-interest bearing financial instruments, accounts receivable from customers, and accounts payable are recorded materially at fair value reflecting their short-term maturity and are not shown in the above table.

Currency risk

No currency exposures were hedged during the year and thus there is a currency risk.
Please see risk management section for currency risk exposures.

28 Deferred tax

DKK 1,000	**2016**	2015
Deferred tax liabilities	0	0
Deferred tax assets	25,329	16,619
	25,329	16,619

The Group has DKK128.6MM of tax credits and allowances in its UK companies however in the absence of certainty over the availability of future taxable profits the value of these has been discounted to zero.

The deferred tax asset relates mainly to the carried forward tax losses that will be realized on the closure of the Norway activities .

DKK 1,000	Faroese hydrocarbon tax	Faroese Corporation tax	Overseas Tax	Total
At 1st January 2015	0	0	-161,426	-161,426
Charge to income	0	0	188,441	188,441
Exchange movements	0	0	-10,396	-10,396
At 31st December 2015	0	0	16,619	16,619
Charge to income	0	0	7,651	7,651
Exchange movements	0	0	1,058	1,058
At 31st December 2016	0	0	25,329	25,329

29 Share capital

DKK 1,000	**2016**	**2015**
Balance at 1st January	369,786	369,786
Shares issued		0
Balance at 31st December	369,786	369,786

Ordinary Shares

DKK 1,000	**2016 100 DKK shares**	**2016**	**2015 100 DKK shares**	**2015**
Ordinary shares				
Authorised	8,626,703	862,670	8,626,703	862,670
Called up, issued and fully paid	3,697,860	369,786	3,697,860	369,786

30 Analysis of changes in net debt/cash

DKK 1,000	2016	2015
a) Reconciliation of net cash flow to movement in net debt/cash:		
Movement in cash and cash equivalents	-37,125	-69,940
Proceeds from long-term loans	61,276	55,041
Proceeds from short-term loans	-21,244	19,500
Increase/decrease in net cash in the period	**2,907**	**4,601**
Opening net cash	-88,148	-92,749
Closing net cash/debt	-85,240	-88,148
b) Analysis of net cash/debt:		
Cash and cash equivalents	4,924	42,049
Short-term debt	-49,420	-110,697
Long-term debt	-40,744	-19,500
Total net cash/debt	-85,240	-88,148

31 Capital comittments and guarantees

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 a guarantee dated 30th 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 24th May 2013 in respect of the Licences.

P/F Atlantic Petroleum has provided a guarantee dated 16th 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 7th 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.

32 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.

Upon completion of the announced Orlando sale, obligation no (ii) above will be passed on to the buyer.

Further to the sale of Pegasus to Third Energy Offshore Limited (TEOL), TEOL are due to make further payments to Atlantic Petroleum UK Limited of up to £9 million if certain events occur.

33 Related party disclosures

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

PARENT COMPANY INCOME STATEMENT

For the year ended 31st December 2016

DKK 1,000	Note	2016	2015
5			
Revenue		0	0
Costs of sales		0	0
Gross loss		**0**	0
Exploration expenses	2	0	-581
Pre-licence exploration cost		0	-23
General and administration cost	3,4,5,7,19	-6,538	-18,893
Other income – income from subsidiaries	6	3,687	15,344
Operating loss		**-2,851**	-4,153
Interest income and finance gains	8	13	126
Interest expenses and other finance costs		-7,501	-415,406
Loss before taxation		**-10,339**	-419,432
Taxation	9	0	0
Loss after taxation		**-10,339**	-419,432
Distribution of profit:			
Retained earnings		-10,339	-419,432
Distribution in total		-10,339	-419,432

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2016

DKK 1,000	**2016**	2015
Items that may be recycled in P/L:		
Loss for the period	-10,339	-419,432
Total comprehensive loss in the period	**-10,339**	-419,432

PARENT COMPANY FINANCIAL POSITION

31st December 2016

DKK 1,000	Note	**At 31st Dec 2016**	At 31st December 2015
Non-current assets			
Intangible assets	12	0	177
Intangible exploration and evaluation assets	13	0	0
Property plant and equipment	14	0	14
Investment in subsidiary	11	51,869	51,868
			52,058
Current assets			
Trade and other receivables	15	374	640
Receivables from subsidiaries	15	11,969	8,673
Cash and cash equivalents	17,19	212	590
		12,555	9,903
Total assets		**64,424**	61,962
Current liabilities			
Short term bank debt	17,19	47,224	39,910
Short term liabilities		0	0
Trade and other payables	16	6,327	2,092
		26,644	42,002
Non-current liabilities			
Long term debt – intercompany		69,217	68,108
Long term bank debt	17,19	20,317	19,500
		116,441	87,608
Total liabilities		**143,085**	129,610
Net assets		**-78,661**	-67,648
Equity			
Share capital	22	369,786	369,786
Share premium account		233,444	233,444
Share based bonus schemes – LTIP		284	958
Retained earnings		-682,175	-671,836
Total equity shareholders´ funds		**-78,661**	**-67,648**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2016

DKK 1,000	Share capital	Share premium account	Share based Payments LTIP and Bonus	Retained earnings	Total
At 1st January 2015	**369,786**	**233,444**	**2,296**	**-252,404**	**353,122**
Capital raise	0	0	0	0	**0**
Change in share premium account/cost of capital raise	0	0	0	0	**0**
Cost of capital raise	0	0	0	0	**0**
LTIP awarded in the period	0	0	-1,338	0	**-1,338**
Result for the period	0	0	0	-419,432	**-419,432**
At 1st January 2016	**369,786**	**233,444**	**958**	**-671,836**	**-67,648**
LTIP awarded in the period, net	0	0	-674	0	**-674**
Result for the period	0	0	0	-10,339	**-10,339**
At 31st Dec. 2016	**369,786**	**233,444**	**284**	**-682,175**	**-78,661**

PARENT COMPANY CASH FLOW STATEMENT

For the year ended 31st December 2016

DKK 1,000	**2016**	2015
Operating activities		
Operating loss	-2,851	-4,153
Impairment on non-current assets	0	509
Relinquishment and disposal of licences	0	72
Depreciation, depletion and amortisation	190	431
Change in trade and other receivables	-3,030	145
Change in trade and other payables	2,707	-3,354
Interest revenue and finance gain received	13	126
Interest expenses and other finance cost	-7,501	-415,406
Taxation	0	0
Net cash flow provided by operating activities	**-10,472**	-421,629
Investing activities		
Capital expenditure	1,528	358,324
Investment in subsidiary	0	0
Net cash used in investing activities	**1,528**	-358,324
Financing activities		
Change in share capital	0	0
Change in share premium cost/cost of capital raise	0	0
Change in short term liabilities	7,314	20,410
Change in long term debt	817	-19,500
Change in share based payments scheme	-674	-1,338
Change in intercompany accounts	1,109	37,616
Net cash flow provided from financing activities	**8,566**	37,188
Change in cash and cash equivalents	**-378**	-26,118
Cash and cash equivalents at the beginning of the period	591	26,709
Cash and cash equivalents at the end of the period	**212**	590

PARENT COMPANY NOTES TO THE ACCOUNTS

1 Corporate information

The financial statements for the Company P/F Atlantic Petroleum for the year ended 31st December 2016, according to the requirement in the Faroese Company Accounts Act, were authorised for issue in accordance with a resolution of the directors on 29th March 2017.

P/F Atlantic Petroleum is a public limited company incorporated and domiciled in the Faroe Islands and listed on the exchanges on NASDAQ OMX Copenhagen and Oslo Stock Exchange. The principal activities of the Company are Oil & Gas exploration, and appraisal in the Faroe Islands.

2 Exploration expenses

DKK 1,000	**2016**	2015
Relinquishment of licences	**0**	72
Explorations expenditures expired/written off	**0**	509
	0	581

3 Auditors' remuneration

DKK 1,000	**2016**	2015
Audit services:		
Statutory audit	**140**	530
Review of interim Financial Statements	**217**	326
	357	856
Tax services:		
Consulting and advisory services	**0**	0
	0	0
Other services:		
Consultancy services	0	0
	0	0

4 Employee cost

DKK 1,000	2016	2015
Staff costs, including executive directors:		
Wages and salaries		
Board of directors	**1,067**	1,489
Managing Director – CEO*	**1,930**	1,942
Administration, technical staff and other emplyees	**234**	5,209
	3,231	8,640
Share based payment – LTIP accounting charge***:		
Managing Director – CEO	**-674**	-1,072
Administration, technical staff and other employees	**0**	-266
	-674	-1,338
Pension costs:		
Managing Director – CEO	**53**	39
Administration, technical staff and other employees	**10**	307
	63	346
Social security costs	**138**	328
Other staff costs	**0**	147
	138	476
Total employee costs	**2,758**	8,123

	2016	2015
Average number of employees during the year**:		
Technical and operations	**0**	1
Management and administration	**1**	5
	1	6

* The Board of Directors' remuneration by person and the CEO's remuneration is disclosed in the Director's Report - Directors' Interests and Remuneration and in Management's Interests and Remuneration.

** Staff numbers include Managers.

*** See also note Share based payments below.

The notice of termination for the CEO is one year.

5 Share based payments

	At 31st December 2016		At 31st December 2015	
	Number of options	Weighted average exercise price DKK	Number of options	Weighted average exercise price DKK
1st January	45,545	118.79	67,897	135.75
Granted during the period	0	0.00	0	0.00
Lapsed during the period	-2,469	118.79	-1,620	130.05
Exercised during the period	0	0.00	0	0.00
Expired during the period	-24,550	118.79	-22,352	169.50
Outstanding at end of period	**18,526**	**118,79**	45,545	118.79
Exercisable at end of period	**0**	**0**	0	0

6 Other operating income

DKK 1,000	**2016**	2015
Service rendering to subsidiaries	**3,687**	15,344
Total	**3,687**	15,344

7 Depreciation

DKK 1,000	**2016**	2015
Depreciations included in general and administration costs	**190**	431
	190	431

8 Interest revenue and expenses & finance gain and cost

DKK 1,000	2016	2015
Interest revenue and finance gains:		
Short-term deposits	**13**	126
	13	126

DKK 1,000	2016	2015
Interest revenue and finance gains:		
Bank loan and overdrafts	7,472	3,711
Creditors	0	1
Write down of assets – subsidiaries	0	357,010
Write down of intercompany loan	0	54,410
Others	29	84
Exchange differences	0	190
	7,501	415,406

9 Tax

DKK 1,000	2016	2015
Current tax :		
Faroese corporation tax	0	0
Faroese petroleum tax	0	0
Total current tax	**0**	0
Deferred tax:		
Faroese corporation tax	0	0
Faroese petroleum tax	0	0
Overseas tax	0	0
Total deferred tax	**0**	0
Tax on profit on ordinary activities	**0**	0

10 Dividend

No interim dividend is proposed. (2016: DKK Nil)

11 Investment in subsidiaries

DKK 1,000	2016	2015
Cost and net book value:		
At 1st January	51,869	408,879
Additions during the year	0	0
Impairment charges on investments	0	-357,010
At 31st December	**51,869**	51,869

Principal subsidiary undertakings of the Parent Company, all of which are 100 per cent owned, are as follow:

Name of Company	Business and area of operation	Country of incorporation or registration
Atlantic Petroleum Norge AS	Exploration, development and production, Norway	Norway
Atlantic Petroleum UK Limited	Exploration, development and production, UK	England and Wales
Atlantic Petroleum (Ireland) Limited*	Exploration, development and production, Ireland	Republic of Ireland
Atlantic Petroleum North Sea Limited*	Exploration, development and production, UK	England and Wales
Volantis Netherlands B.V.*	Exploration, development and production, Netherlands	Netherlands

* Held through subsidiary undertaking.

In connection with the debt facility, P/F Atlantic Petroleum has pledged as security to the lenders the shares in the wholly owned subsidiary Atlantic Petroleum UK Limited. See note regarding capital commitments and guarantees.

Volantis Netherlands B.V. is in the process of being liquidated.

12 Intangible assets

DKK 1,000	2016
Costs	
At 1st January	1,467
Exchange movements	0
Additions	0
At end of period	**1,467**
Amortisation and depreciation	
At 1st January	-1,291
Exchange movements	0
Charge this period	-177
At end of period	**-1,467**
Net book value at end of period	**0**

13 Intangible assets Oil and Gas exploration and evaluation assets

DKK 1,000	**2016**
Costs	
At 1st January	0
Exchange movements	0
Additions	0
Disposal/relinquishment of licences	0
Explorations expenditures written off/sold	0
At end of period	**0**

The amounts for intangible E&E assets represent the active exploration projects. These amounts will be written off to the income statement as exploration expense unless commercial reserves are established or the determination process is not completed and there are no indications of impairment.

14 Property, plant and equipment

DKK 1,000	**2016**
Costs	
At 1st January	850
Exchange movements	0
Additions	0
At end of period	**850**
Amortisation and depreciation	
At 1st January	--837
Exchange movements	0
Charge this period	-13
At end of period	**-850**
Net book value at end of period	**0**

15 Trade and other receivables

	2016	2015
Trade receivables	319	382
Prepayments and accrued income	0	0
Other taxes and VAT receivable	55	122
Other receivables	0	147
Receivables from subsidiaries	11,969	8,673
	12,343	9,314

All trade and other receivables are due within one year.

The carrying values of the trade and other receivables are equal to their fair value as at the balance sheet date.

The amount due from subsidiary undertakings relates to balances, which bears no interest and are payable upon request. In connection with the Company´s debt facility, P/F Atlantic Petroleum has pledged as securitythe intra-company receivables from Atlantic Petroleum UK Limited. See note regarding capital commitments and guarantees.

16 Trade and other payables

DKK 1,000	**2016**	2015
Trade payables	1,820	1,695
Accrued expenses	220	397
Other payables	4,287	0
	6,327	2,092

All trade and other payables are due within one year.
The carrying values of the trade and other payables are equal to their fair value as at the balance sheet date.

17 Cash, short and long-term debt

DKK 1,000	**2016**	2015
Cash:		
Cash at bank and in hand	212	590
Total cash	212	590
Short term bank loans	47,224	39,910
Other short term loans		0
Total short term borrowings	47,224	39,910
Long term bank loans	20,317	19,500
Other long term loans		0
Total long term borrowings	20,317	19,500

The borrowings are repayable as follows:

DKK 1,000	**2016**	2015
Bank loans analysed by maturity		
Within one year	47,224	39,910
In one to five years	20,317	19,500
More than five years	0	0
	67,541	59,410

18 Obligations under leases

DKK 1,000	**2016**	2015
Minimum lease payments under operating leases recognised in the income statement for the year	0	308
	0	308
Outstanding commitments for future minimum lease payments under non-cancellable operating leases, wich fall due as follows		
Within one year	0	0
In one to five years	0	0
Over five years	0	0
	0	0

19 Financial instruments

The Group's activities expose it to financial risks of changes, primarily in oil and gas prices, but also foreign currency exchange and interest rates. The Group use derivative financial instruments to hedge certain of these risk exposures.

Interest rate risk profile of financial liabilities
The interest rate profile of the financial liabilities of the Group as at 31st December was:

DKK 1,000	**Fixed rate**	**Floating rate**	**Total**
2016	**DKK**	**DKK**	**DKK**
DKK	0	67,541	67,541
Total	0	**67,541**	**67,541**
2015			
DKK	0	59,410	59,410
Total	**0**	**59,410**	**59,410**

The floating rate comprises bank borrowings bearing interest at rates set by reference to DKK CIBOR exposing the Group to a cash flow interest rate risk.

A 1 per cent point change per annum in the interest would have a hypothetic effect of DKK 0,7MM (2015: DKK 0,6MM) on the result and equity.

Interest rate risk profile of financial assets
The interest rate profile of the financial assets of the group as at 31st December was:

DKK 1,000	**Fixed rate**	**Floating rate**	**Total**
2016	**DKK**	**DKK**	**DKK**
Held in DKK	0	212	212
Held in GBP	0	0	0
Total	**0**	**212**	**212**
2015			
Held in DKK	0	590	590
Held in GBP	0	0	0
Total	**0**	**590**	**590**

The floating rate cash and short-term deposits consists of cash held in interest-bearing current accounts by reference to DKK CIBOR.

The fair values of the financial assets and financial liabilities are:

DKK 1,000	**2016 Carrying amount DKK**	**2016 Estimated fair value DKK**	2015 Carrying amount DKK	2015 Estimated fair value DKK
Primary financial instruments held or issued to finance the Group's operations:				
Cash and short-term deposits	212	212	590	590
Bank loans and credit facility	47,224	47,224	39,910	39,910
Long-term bank loan	20,317	20,317	19,500	19,500
Derivative financial instruments held or issued to hedge the Group's exposure on expected future sales:				
Forward commodity contracts - net	0	0	0	0

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction, other than in a forced or liquidated sale. Where available, market values have been used to determine fair values. The estimated fair values have been determined using market information and appropriate valuation methodologies. Values recorded are indicative and will not necessarily be realised. Non-interest bearing financial instruments, accounts receivable from customers, and accounts payable are recorded materially at fair value reflecting their short-term maturity and are not shown in the above table.

Currency risk

No currency exposures were hedged during the year and thus there is a currency risk.
Please see risk management section for currency risk exposures.

Glossary

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.
BCF	Billions of cubic feet
Bn	Billion
BOEPD	Barrels of Oil Equivalent per Day
BOE	Barrels of Oil Equivalent
BOPD	Barrels of Oil per Day
DECC	UK Department of Energy & Climate Change
DKK Danish kroner.	The currency used in the Kingdom of Denmark
EBIT	Earnings before Interest and Taxes (Operating Profit)
EBITDAX	Earnings before Interest, Taxes, Depreciation, Amortizations and Exploration Expenses
EBIT Margin	% (Operating Margin) (EBIT/Sales)
EBITDAX Margin	% (EBITDAX/Sales)
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 offshore oil and gas industry for the processing of hydrocarbons and for storage of oil.
Gross Margin	% (Gross profit or loss/Sales)
Lead	Areas thought to contain hydrocarbons.
Ltd	A limited liability company
MM	Million
Monte Carlo	The Monte Carlo method approximate solutions to quantitative problems by employing statistical sampling that calculates a representative range of resulting values. Monte Carlo simulation results are pre-determined by the possible values of the underlying input variables, which can encompass multiply source of uncertainties.
NCS	Norwegian Continental Shelf
Net Cash	Cash and cash equivalents less Short & Long Term Debt
Oil field	An accumulation of hydrocarbons in the subsurface.
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

Contacts

P/F Atlantic Petroleum
P.O.Box 1228
Yviri við Strond 4
FO-110 Tórshavn
Faroe Islands
Telephone +44 208 879 0524
E-mail: petroleum@petroleum.fo
www.petroleum.fo
VAT/Tax No. Faroes 475.653
Reg. No. Faroes 2695

Atlantic Petroleum UK Ltd / Atlantic Petroleum North Sea Ltd
10 Arthur Street
London EC4R 9AY
United Kingdom
Telephone +44 (0) 20 3879 0524

Registered address
c/o 38 Hertford Street
Mayfair
London W1J 7SG
United Kingdom

Atlantic Petroleum Norge AS

Registered Address

c/o Filipstad Brygge 2
Postboks 1397 Vika, 0114 Oslo

Norway

Atlantic Petroleum (Ireland) Ltd
Registered address
First Floor
Fitzwilton House
Wilton Place
Dublin 2
Ireland

Auditors Parent Company
JANUAR, State Authorised Public Accountants P/F
P.O.Box 30, Óðinshædd 13
FO-110 Tórshavn
Faroe Islands
Telephone +298 314 700
Fax +298 351 701
E-mail: januar@januar.fo
www.januar.fo

Auditors Subsidiaries

Atlantic Petroleum UK Ltd/ Atlantic Petroleum North Sea Ltd:

Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen AB15 4DT
United Kingdom

Atlantic Petroleum (Ireland) Ltd:

KPMG
Stokes Place
St Stephens Green
Dublin 2
Ireland

Atlantic Petroleum Norge AS
Ernst & Young AS
Dronning Eufemias gate 6
Postboks 20
0051 Oslo
Norway