

**Northern Petroleum Plc**  
**(“Northern Petroleum”, “Group” or “the Company”)**

**Strategic investment in Canadian assets**

**Italian and Australian farm out**

**Subscription and Open Offer**

Northern Petroleum, the AIM quoted oil company focusing on production led growth, announces that it has agreed to divest interests in its assets, as detailed below, to High Power Petroleum LLC (“H2P”), for a consideration of US\$2.5 million in cash and the application of US\$0.25 million of well stimulation services (“the Consideration”) by Blue Spark Energy Inc. (“Blue Spark”), an affiliate of H2P based in Calgary.

The Company also announces a proposed direct subscription (the “Subscription”), subject to shareholder approval, to raise gross proceeds of up to £5.1 million at a price of 3.5 pence per subscription share (the “Issue Price”) through a first tranche subscription of 124,047,017 new ordinary shares (the “First Tranche Subscription”) and a second tranche subscription of up to 20,600,000 new ordinary shares (the “Second Tranche Subscription”), both at the Issue Price. The Issue Price represents a premium of 12.0 per cent. to the middle market closing price per ordinary share of 3.125 pence on 29 November 2016, being the last business day prior to this announcement.

A proposed open offer for up to 21,500,000 new ordinary shares with nominal value of 1 pence each in the capital of the Company (“Ordinary Shares”) at the Issue Price, raising up to an additional £0.8 million, will be made to existing qualifying shareholders (the “Open Offer”). Total funds realised from the Consideration, the Subscription and Open Offer will total up to US\$9.7 million (approximately £7.8 million).

**Highlights**

*The Disposals*

- Subject to the approval of the Subscription by shareholders, the Company will divest to H2P for the Consideration the following interests in the Group’s assets (the “Disposals”):
  - a 25 per cent. interest in all of the Company's Canadian licences, wells and facilities (“Canadian Assets”);
  - a 10 per cent. interest in the Company's Italian offshore southern Adriatic exploration permits (“Italian Permits”) and exploration permit applications (“Italian Applications”), if granted; and
  - a 25 per cent. interest in the Company's onshore Australian licence (“Australian Asset”).
- The Company has also agreed to grant H2P options to increase its interest in the Group's assets as follows:
  - an increase in the Canadian Assets from 25 per cent. to 50 per cent. by agreeing to pay an additional US\$4 million before 31 December 2017;
  - an increase in the Italian Permits and Italian Applications, if granted, from 10 per cent. to 50 per cent. by funding an appraisal well on the Giove oil discovery in permit FR.40 up to a cap of US\$15 million; and
  - an increase in the Australian Asset from 25 per cent. to 50 per cent. by funding US\$1 million of seismic acquisition and processing.

### *The Subscription and Open Offer*

- The Subscription has been agreed, subject to shareholder approval, of up to 144,647,017 Ordinary Shares at the Issue Price as follows:
  - H2P, Cavendish Asset Management Limited (“Cavendish”), City Financial Investment Company Limited (“City Financial”) and one further financial institution have agreed to subscribe for a total of 124,047,017 Ordinary Shares under the First Tranche Subscription, raising proceeds of £4.3 million, before expenses;
  - an Open Offer will be made to enable all qualifying shareholders to participate in the fundraising at the Issue Price for up to 21,500,000 Ordinary Shares; and
  - in addition, H2P and Cavendish have agreed to subscribe, once the results of the Open Offer are known, for up to an additional 20,600,000 Ordinary Shares under the Second Tranche Subscription to maintain a shareholding of 29.99 per cent. and 19.0 per cent. respectively.

### *AMI and board appointment*

- The Company and H2P have entered into an Area of Mutual Interest Agreement (“AMI”) to jointly pursue new opportunities in Alberta and Saskatchewan, Canada
- H2P will have the right to appoint a non-executive director to the board of the Company
- The proceeds of the Disposals, Subscription and Open Offer will be used primarily to fund the Company's share of the forthcoming winter work programme in Canada and further production redevelopment in Canada in 2017 as well as the acquisition of 3D seismic in the southern Adriatic and the general working capital requirements of the Company

### *H2P*

H2P is a wholly-owned oil and gas exploration and production subsidiary of I-Pulse Inc., a technology company which develops and commercialises high pulse power solutions with multi-sector and cross-industry applications, particularly for the natural resources sector. H2P is investing in a broad portfolio of upstream oil and gas assets, leveraging the I-Pulse group’s unique proprietary technologies in well stimulation, production optimisation and electro-magnetic exploration surveying applications, to create an enhanced economic return.

Keith Bush, Chief Executive Officer, commented:

“The introduction of H2P as a strategic investor at both the asset level and as a corporate shareholder marks a step-change for the Company. The investment across the Company's asset portfolio validates the strategy we have pursued with production led growth in Canada and the Italian exploration and appraisal portfolio providing the possibility of very large returns in the medium to long term. Not only does H2P bring strong financial support, they provide rigorous technical review and innovative technology to help enhance our asset value.

“Continued support from our other key shareholders, Cavendish and City Financial, combined with H2P gives the Company a strong financial base from which to grow production in Canada and develop the Italian portfolio. Asset acquisition opportunities are still coming on to the market in Canada, and through the AMI we can now pursue these with a well financed and capable partner, to help accelerate growth in Canada and build a material production business.

“With the business now strengthened it is important that the Company’s existing private shareholders can invest alongside our new shareholder through the open offer and benefit from the value that will result from this new partnership.”

Scott Aitken, Chief Executive Officer of H2P, commented:

“We are very pleased to be partnering with Northern Petroleum across their asset base. Their strategy of building production and cashflow in Canada while maturing exploration and appraisal opportunities in Italy is closely aligned with how we are building our exploration and production operations. We believe H2P can add technical expertise along with the potential enhancements of our pulse technology, initially starting with well stimulations in Canada.”

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## **1. Canadian expansion**

On 22 January 2016, the Company completed an acquisition of wells and facilities in the Rainbow area of north west Alberta (the “Rainbow Assets”), located near its existing operations in Virgo further to the north (the “Virgo Assets”). During the first half of 2016, a work programme was undertaken to increase production from approximately 150 barrels of oil per day (“bopd”) to in excess of 400 bopd, primarily from the Rainbow Assets. Further investment was made to develop the production base and review the future development potential of the Rainbow Assets and Virgo Assets combined, including mandating McDaniel & Associates Consultants Ltd (“McDaniel”) to produce an updated third party reserves report, the results of which were published on 27 October 2016.

The work completed during the year and the results of the McDaniel reserves report supported the Director’s initial views on the potential of the asset base in the region and its ability to produce much higher levels of daily production. The forecast investment returns over the medium term, even in the current oil price environment, were deemed attractive enough to warrant a larger programme of investment to further develop reserves and production volumes.

The investment required for the planned programme was greater than likely to be generated through cashflow from the existing production levels, at least in the short term. Therefore discussions were held with a number of third parties concerning a possible investment into the Canadian Assets to help materially increase production over the short and medium term. These discussions resulted in the Company agreeing a broad investment programme, which is described below, with H2P. Legally binding agreements have been signed to complete the various acquisitions and investments which are conditional upon, inter alia, certain regulatory approvals as well as the closing of the First Tranche

Subscription, as described below, which itself is subject to the approval by shareholders in a general meeting.

H2P's acquisition and investment at the asset level and the significant investment as part of the Subscription is fundamental to the financing of the Company as it grows production in Canada and progresses the exploration and appraisal projects in Italy. If the Subscription is not approved by shareholders, sufficient funding will not be available to the Company to undertake production development work on the Rainbow Assets and the Company will need to look for alternative sources of finances to support the Company during 2017.

## **2. The Disposals**

For a total consideration of US\$2.5 million in cash and the application of US\$0.25 million of well stimulation services by Blue Spark, an affiliate of H2P based in Calgary, H2P has agreed, conditional upon the required regulatory approvals in Italy and Australia and the completion of the First Tranche Subscription, in which H2P is participating, to purchase:

- a 25 per cent. interest in all of the Canadian Assets;
- a 10 per cent. interest in the Italian Permits;
- a 10 per cent. interest in the Italian Applications, if granted; and
- a 25 per cent. interest in the Australian Asset.

The Company has also agreed, conditional on the completion of the Disposals outlined above, to grant H2P options to increase its interest in the Group's assets as follows:

- H2P can increase its interest in all of the Canadian Assets from 25 per cent. to 50 per cent. by agreeing to pay an additional US\$4 million before 31 December 2017;
- H2P can increase its interest in the Italian Permits and Italian Applications, if granted, from 10 per cent. to 50 per cent. by funding all the work required to plan, contract drill, case, run temporary drill stem testing string and perforate an appraisal well on the Giove oil discovery in permit FR.40 up to a cap of US\$15 million, an option which must be exercised within three months of receiving the results of the proposed 2017 3D seismic acquisition in the southern Adriatic; and
- H2P can increase its interest in the Australian Asset from 25 per cent. to 50 per cent. by funding all the work required to acquire and process seismic data with a seismic acquisition programme value of US\$1 million, an option which must be exercised before the licence transitions into its second year in Q3 2017.

The Company and H2P have entered into an AMI agreement to pursue jointly new opportunities to acquire assets in Alberta and Saskatchewan for three years.

## **3. The Subscription**

The Company announces that it has, conditionally, inter alia, upon the passing of the resolutions to be proposed at a general meeting (the "Resolutions") to be convened shortly and upon admission of the Ordinary Shares to trading on AIM, raised £4,341,646 before expenses through the First Tranche Subscription at the Issue Price. The Issue Price represents a premium of approximately 12.0 per cent. to the middle market closing price per ordinary share of 3.125 pence on 29 November 2016, being the last business day prior to this announcement.

Certain of the investors participating in the First Tranche Subscription have agreed to subscribe for further Ordinary Shares once the results of the Open Offer are known in order to maintain the same percentage equity interest in the Company after the completion of the Open Offer that they held before the Open Offer. Accordingly, depending upon take-up under the Open Offer, up to 20,600,000 Ordinary Shares may be subscribed pursuant to the Second Tranche Subscription at the Issue Price, raising up to £721,000 (before expenses).

#### **4. The Open Offer**

The Board has decided to make an Open Offer so that all qualifying shareholders have an opportunity to participate at the Issue Price, as investors have done under the Subscription. Accordingly, up to 21,500,000 Ordinary Shares are being made available to qualifying shareholders at the Issue Price under the terms of the Open Offer, raising up to a further £752,500 before expenses. The Directors intend to take up at least their entitlements under the Open Offer. The full details of the proposed Open Offer will be disclosed in a further announcement and a circular to shareholders ("Circular"), which will be posted shortly.

The net proceeds of the Subscription and the Open Offer will be used primarily for the development of the Company's assets in Canada, progressing the Company's offshore permits in the southern Adriatic, as well as supporting the ongoing working capital requirements of the Company.

#### **5. Related Party Transactions**

Cavendish and City Financial are substantial shareholders of the Company as defined in the AIM Rules for Companies ("AIM Rules"). Accordingly, the subscription for Ordinary Shares by each of Cavendish in the First Tranche Subscription and Second Tranche Subscription and City Financial in the First Tranche Subscription are related party transactions pursuant to the AIM Rules. The Directors of the Company consider, having consulted with the Company's nominated adviser, Stockdale Securities Limited, that the terms of the subscriptions by Cavendish and City Financial are fair and reasonable insofar as the Company's shareholders are concerned.

#### **6. General Meeting**

The Subscription and Open Offer are conditional upon the approval of the Resolutions by shareholders in general meeting. However, the Subscription and the Open Offer are not inter-conditional. The Circular, setting out the details of the Subscription and Open Offer and the Resolutions and a notice convening the general meeting, expected to occur in December, will be posted to shareholders shortly. A further announcement will be made at that time with additional details concerning the Resolutions, along with a proposed timetable for the Subscription and Open Offer.

-Ends-

In accordance with the AIM Rules - Guidance for Mining and Oil & Gas Companies, the information contained in this announcement has been reviewed and signed off by the CEO of Northern Petroleum, Mr Keith Bush, who has 25 years' experience as a petroleum engineer. He has read and approved the technical disclosures in this regulatory announcement. The technical disclosure in this announcement complies with the SPE/WPC standard.

#### *Note to Editors*

Northern Petroleum is an oil and gas company focused on production led growth. The Company is

undertaking a redevelopment and production project in Alberta and has a broader portfolio of exploration and appraisal opportunities in countries of relatively low political risk, primarily Italy. Comprehensive information on Northern Petroleum and its oil and gas operations, including press releases, annual reports and interim reports are available from Northern Petroleum's website: [www.northernpetroleum.com](http://www.northernpetroleum.com)