RNS Number : 6233A
Northcote Energy Limited
30 September 2015

Northcote Energy Ltd / Index: AIM / Epic: NCT / ISIN: VGG6622A1057 / Sector: Oil & Gas
30 September 2015

Northcote Energy Ltd ('Northcote' or 'the Company')

Interim Results

Northcote (AIM: NCT) is pleased to announce its interim results for the six months ended 30 June 2015.

Highlights:

- Excellent progress made in building an energy company with significant exposure across the global oil and gas value chain
- On course to build an EBITDA profitable company in 2016 irrespective of the oil price environment
- Successfully repositioned US onshore portfolio to reflect low oil price environment: Acquisition of NAP USA, Inc. doubled Northcote's interest at core low cost Shoats Creek property to 70% from 35% for a total of 1,266,074,005 consideration shares alongside ongoing divestment of non-core assets
- Raised £4.2million in new equity capital to pursue the Group's US and Mexican strategy and to fully pay down the Darwin Convertible loan note
- Entered into a Joint venture with Gaia to pursue new business opportunities within the oil field services sector in Mexico
- Earned a participation right over 12.5% of any concessions or other oil and gas transactions that CEB Resources Plc enters into in Indonesia for a period of 5 years

Post period end:

- Excellent results from first Shoats Creek well underpins management's belief that this project is capable of delivering substantial value and cash flow for shareholders in the very near term
- Expanding presence in Mexico to capitalise on opportunities arising from energy reforms:
    - Establishment of Mayan Drilling Fluids, a partnership with Gaia Ecologica, to develop a scalable remediation facility in Tabasco state - revenues already being generated ahead of commissioning in Q1 2016
    - Granted access to the data room being administered by the National Hydrocarbons Commission ('CNH') in line with strategy to gain upstream exposure
- Continuation of strategy to evaluate opportunities in Mexico and internationally

Northcote Managing Director Randall Connally said: "Successful companies look for and take advantage of opportunities in the face of adversity and we reacted quickly to position Northcote to thrive in the current oil price environment. As a result of a change in our strategic direction, one which involves adding midstream and downstream activities to our traditional upstream focus, we are now in a fantastic position to take advantage of the enormous opportunities we are seeing across the oil & gas value chain going into 2016 and beyond, and in the process generate significant value for our shareholders regardless of the prevailing oil price.

"Thanks to the steps we have taken so far this year, which includes acquiring NAP USA Inc., recapitalising the Group making our first investment in Mexico where we have also entered the latest onshore bid round, and hitting a home run at Shoats Creek with our LM#20 well, we now have what in the very near term will be a highly cash generative platform from which to invest in the multiple value creating opportunities we have identified. In the coming months we are highly confident that many of our projects will start to deliver value: increased cash flow generated from oil production at Shoats creek; our exposure to the onshore bid round in Mexico; the potential vesting of our 30,000,000 2p warrants in MX Oil; our Mayan Drilling Fluids joint venture becoming operational; and our option to participate in world class assets in Indonesia alongside CEB Resources. This is an exciting period for the group, one which will not be short of high impact news flow as we look to transform Northcote in 2016."

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

The transformation of Northcote into an energy company with significant exposure across the global oil and gas value chain continued apace during the six months under review. Thanks to the excellent progress made, Northcote now has a rapidly growing portfolio of interests in the prolific hydrocarbon regions of the US, Mexico and Indonesia with multiple near term value drivers in place, all of which have the potential to generate material and diversified revenue streams, regardless of the oil price environment.

We recognised at an early stage that we were entering a period of sustained oil price weakness and that we needed to reposition Northcote so that we would not just survive in such an environment, but also thrive.

In our US portfolio, Shoats Creek immediately stood out as the preferred asset for the Company to develop in the current oil price environment. The recent success at our LM#20 well has validated the hypothesis that Shoats Creek demonstrates all the criteria that a micro-cap Energy company needs to turn it into a sustainably profitable energy company. Shoats Creek is a proven conventional oil & gas field that has thousand barrel per day production potential, with a clear and understood development path that can be executed through the multiple identified new drill opportunities, each of which demonstrate excellent economics at current prices. When taken together these characteristics demonstrate an asset that is capable of delivering the material increases in revenues and cash flows that Northcote needs to become a sustainably cash generative group.

We plan to follow the recent success at Shoats Creek with further new drill activity will commence this year and continue into 2016. Shoats Creek is the right platform at the right time to transition Northcote into the next exciting stage of its development and we expect to report significant improvements across all areas of our operational and financial performance in the coming months.

Furthermore building a successful Shoats Creek will be a significant enabler to unlock the greater value that is inherent across our portfolio during 2016 and beyond. Of particular importance is the reopening of the vast Mexican energy sector and our ability to position Northcote at the forefront of this once in a generation opportunity through our extensive contacts in the country and we will continue to roll-out our fully integrated energy offering with interests in upstream, mid-stream/service and down-stream activities.

To achieve our objective while maintaining strict balance sheet discipline, we have adopted a model whereby once we have identified suitable opportunities which have the potential to generate near term revenue streams, we look to secure a partner with the experience and expertise to rapidly deliver early cash flows. This model has many benefits: it allows us to maximise returns; minimise risk; and also enables us to take advantage of the multiple opportunities we have identified.

Upstream

US Onshore

Our upstream business currently comprises several US onshore projects which, in response to the current oil price environment, we have split into focus and non-focus portfolios. It clearly makes sense to prioritise the development of assets where the economics remain attractive at US$40 oil and this is what we have done. Our low cost conventional Shoats Creek Field in Louisiana, in which we hold a 70% working interest following our takeover of NAP USA earlier in the year, is one such high priority project. Our confidence in Shoats Creek's company-making credentials was strengthened further post period end with the successful drilling of the Lutcher Moore #20 well ('LM #20'), the first of a multi-well programme planned for the field. We have a 93% working interest in LM#20 which produced 260 barrels of oil and 500 Mcf of natural gas per day (340 barrels of oil equivalent per day) during a 24 hour test. This vastly exceeded our pre-drill expectations and as well as providing us with immediate cash flows, the result has de-risked a further three drilling locations on the field, increasing our defined new well inventory for Shoats Creek to 11, with further potential to increase this well inventory further.

The key to fully unlock the maximum value from Shoats creek is to continue the momentum that the success at the LM#20 has provided therefore we have commenced the permitting process to drill another well at Shoats Creek before the end of 2015 and expect to continue to develop the field during 2016.

Our decision to focus on Shoats Creek has been rewarded and nothing has changed our view that we must continue to rationalise our US portfolio to free up our people and financial resources to focus on those with the greatest upside potential. We have already successfully divested some of our smaller non-core assets, for the remaining non-core Oklahoma portfolio we are seeking to divest these assets in a structure that provides our shareholders with access to the upside present in those assets but removes the operational and funding responsibility for these assets and we look forward to announcing further progress as these initiatives reach fruition.

Mexico

The reopening of Mexico's energy sector to international companies presents a huge opportunity for companies such as Northcote which have a proven operational track record, first rate partners and an excellent team in country. The numbers speak for themselves. According to the BP Statistical Review as at the end of 2014, Mexico's total proved reserves were estimated at 11.1 billion barrels while daily production stood at 2,784,000 bopd, making Mexico the 10th biggest global producer of petroleum and other liquids. Due to their close proximity, Mexico and the US share similar geology but with one standout difference. Mexico's conventional, let alone unconventional resources, remain substantially underdeveloped compared to the US. With the Mexican Government setting a level playing field for the tender process, oil and gas companies such as Northcote therefore have the chance to be at the forefront of this exciting growth story.

Our main area of focus is onshore conventional fields where the latest technology and techniques can be applied to dramatically increase production and the recovery of reserves. Fields such as these are up for tender in Phase III of Bid Round 1, and we have registered for, and been granted, access to the data room being administered by the National Hydrocarbons Commission ('CNH'). Phase III includes a total of 26 Land Contract Areas in the states of Chiapas, Nuevo Leon, Tabasco, Tamaulipas and Veracruz and it is anticipated that concessions under Phase III will be awarded in December 2015. Northcote is preparing its prequalification package to qualify as a bidder for the December 2015 concessions. In addition our agreement with MX Oil gives us significant exposure to this process and should they be successful our warrants, 30,000,000 of which are struck at 2pence and vest on MXO receiving an interest in a Mexican concession, which have the potential to become a highly valuable asset in the very near term.

Indonesia

In line with our strategy to partner with world class oil and gas professionals in exciting opportunities around the world, during the period we secured a participation agreement and equity investment in CEB Resources plc ('CEB'), an AIM listed investment vehicle focused on pursuing investment opportunities in Indonesia, a premier oil and gas region in South East Asia. In a similar way to our participation agreement with MX Oil, Northcote earned its interest in return for introductions and assistance provided to CEB and its new management team. Under the agreement, Northcote is entitled to participate in up to 12.5% of any of CEB's investments, at its sole discretion, in Indonesia for a term of five years. This strategy of gaining participation rights enables us to effectively manage our balance sheet while also gaining exposure to what is a prolific hydrocarbon region and we are very excited by the prospect of working with the exceptionally strong team at CEB.

Midstream/Services

Our investment in a remediation facility in Mexico, which once operational will generate material mid-stream revenues, provides a readymade example of our model of identifying value creating opportunities and partnering with highly experienced professionals to deliver early stage cash flows. The vehicle we have used to invest in the plant is our 51% owned Mexican subsidiary Mayan Drilling Fluids. Our partner in the venture is Gaia Ecologica S.A. DE C.V ('Gaia Ecologica'), an established operator in providing waste remediation services to local oil and gas companies in Mexico, and a proven track record in managing operations from the initial build and commissioning stage through to full scale roll-out. Already a first contract to remediate waste worth circa US$800,000 has been secured and is generating revenues, which will contribute towards funding the construction of the remediation plant and evidences the quality of our on-ground partner.

The facility, which is the first investment by a foreign company in Tabasco State under Mexico's energy reform, is to be commissioned in phases. Phase 1 is on track to be completed this year at which point the plant will be capable of operating continuously and handling in excess of 700 tonnes per day. It is expected to operate a pricing model in line with similar plants in South Texas where prices can range from US$60 to US$100 per ton of waste processed, demonstrating significant revenue potential. Northcote is the funding partner, owning 51% equity in the JVCO, and Gaia is the operating partner, owning the remaining 49%. Northcote is funding 100% of the up-front expenditures associated with the implementation of Mayan's business plan and will receive 85% of distributable cash flow until pay-out plus a 9% internal rate of return has been achieved on the investment, after which profits will be distributed based on the relative ownership.

The plant matches our investment criteria: it will diversify our revenues as activity is not directly linked to the oil price and waste from non-oil and gas sectors can also be remediated; provides scope for generating significant near term cash flows; the capital expenditure associated with its construction can be split into manageable portions so that revenues generated from initial phases funds future expansion; it is operated by the highly experienced team of our partners; is located in the state of Tabasco where there is substantial oil and gas activity; and it is easily scalable with the potential to expand in line with expected increases in demand. In short, this will prove to be a highly profitable business which can be rolled out across the country, and this is what we intend to do.

Mexico's reformation of the oil and gas industry affects the entire value chain and as a result offers the potential for significant revenue growth for an array of industries not just E&P companies. For example, key infrastructure and oil field services will have to be upgraded and expanded to cope with the anticipated surge in production over the next decade, while the expected influx of personnel will need to be trained and supplied with equipment. The remediation plant is therefore the first of many midstream/service opportunities we are currently evaluating in Mexico.

Downstream

With both our upstream and midstream businesses already generating revenues, we are focused on adding downstream activities to the business mix which will complete Northcote's transformation into a vertically integrated energy company and reduce our direct exposure to the low oil price environment. We have a number of potential downstream projects at advanced stages of due diligence and/or planning which we hope to close in the near term. In line with our model, these ventures will be undertaken with highly experienced partners, will be delivered within a highly efficient capital structure and will offer the potential for significant near term cash flows which can be reinvested into further exploitation of the opportunity.

It is one thing to spot opportunities and another to take advantage of them. This requires a first rate team, and during the period we have put one in place. Our team in Mexico is headed by Mr. Abraham Achar who we appointed as full time Executive Vice President - Mexico during the period to lead and develop business development activities in the country. Mr. Achar is a Mexican citizen with an impressive network of governmental, corporate and investor contacts covering an extensive range of industries in-country and in the USA. These have been gained through a range of high profile roles held throughout his career which have been predominantly aimed at promoting foreign investment into Mexico across a range of sectors, including the energy industry. Our role is that of a facilitator, converting the opportunities presented by Abraham into a reality by identifying and securing the right operational partner with the expertise, business acumen and growth capabilities required to execute on the opportunity in an effective and commercial way. Our access to funds or funding partners will also play a role in this chain.

Financial Review

The Group generated a gross loss in the period of US$250,000 (30 June 2014: US$63,000 profit), which was predominantly a result of lower commodity prices throughout the period. The Group is taking steps to address this post period end and the recent success at Shoats Creek will be an important driver, which alongside progress being in made in the divestment of its not core assets is expected to improve field level operating performance in the second half of the year and beyond.

The Group incurred a loss of US$2,141,000 for the six months ended 30 June 2015 (30 June 2014: US$1,791,000). The Group held a cash balance of US$2,348,000 at 30 June 2015 (US$323,000 at 30 June 2014; US$5,000 at 31 December 2014).

Outlook

The six months under review have laid the foundations for what we believe will be a highly exciting period for the Company, one which we are highly confident will result in substantial value being generated for our shareholders. This has already started. Post period end, we announced forecast beating production at the recently drilled LM#20 well at Shoats Creek, our first remediation revenue in Mexico, and our direct participation in the upcoming tender for onshore conventional concessions in Mexico. The excellent momentum behind the business looks set to build further in the second half and beyond, as we advance plans to drill additional wells at Shoats Creek, commission our remediation plant in Mexico, and pursue concessions in Mexico. We are also working hard to add downstream exposure to our offering, which once secured, would complete the transformation of Northcote into a vertically integrated energy company. It is our ambition and expectation to make Northcote an EBITDA profitable company in 2016 irrespective of the oil price environment. We have said before that the opportunity for Northcote in Mexico is only limited by what we can achieve and it is exciting that the platform given to us by Shoats Creek and Mayan Drilling fluids accelerates our ability to take advantage of those opportunities during 2016 and beyond.

Ross Warner	Randall Connally
Executive Chairman	Chief Executive Officer
29 September 2015	29 September 2015

A copy of this announcement and the Interim results will be available on the Company's website. For further information visit www.northcoteenergy.com or contact the following:

Randy Connally	Northcote Energy Ltd	+1 214 550 5082
Ross Warner	Northcote Energy Ltd	+44 7760 487 769
Dan Jorgensen	Northcote Energy Ltd	+44 20 7236 1177
Roland Cornish	Beaumont Cornish Ltd	+44 20 7628 3396
James Biddle	Beaumont Cornish Ltd	+44 20 7628 3396
Elliot Hance	Beaufort Securities Ltd	+44 20 7382 8300
Nick Bealer	Cornhill Capital Limited	+44 20 7710 9612
Elisabeth Cowell	St Brides Partners Limited	+44 20 7236 1177

Notes:

Northcote Energy Limited is an entrepreneurial energy company with diverse interests. The Company combines excellent on-shore US producing assets at its 70% owned Shoats Creek field in Louisiana with the development of new business opportunities in the US and also in Mexico, such as its participation agreement with MX Oil PLC and agreement with Gaia Ecologica as well as Indonesia via a strategic relationship with CEB Resources.

Consolidated statement of comprehensive loss
For the six months ended 30 June 2015

	Six months ended 30 June 2015 (unaudited) US$'000s	Year ended 31 December 2014 (audited) US$'000s	Six months ended 30 June 2014 (unaudited) US$'000s
Revenue	**349**	1,432	**783**
Cost of sales	**(599)**	(1,567)	**(720)**
Gross profit	**(250)**	(135)	**63**
Administrative expenses			
Impairment of intangible assets	**-**	735	**-**
Impairment of property, plant and equipment	**-**	5,597	**-**
- Other administrative expenses	**1,537**	2,870	**1,727**
Total administrative expenses	**(1,537)**	(9,202)	**(1,727)**
Operating loss	**(1,787)**	(9,337)	**(1,664)**
Finance income	**3**	52	**-**
Finance costs	**(357)**	(493)	**(127)**
Loss before tax	**(2,141)**	(9,778)	**(1,791)**
Income tax expense	**-**	-	**-**
Loss after tax attributable to equity holders of the parent	**(2,141)**	(9,778)	**(1,791)**
Other Comprehensive Income:	**164**	105	**(118)**
Exchange differences arising on translating foreign operations which can be subsequently recycled to profit and loss	**66**	-	**-**
Revaluation gains - Available-for-Sale Investments			
Total comprehensive income	**230**	105	**(118)**
Total comprehensive loss for the period attributable to equity holders of the parent	**(1,911)**	(9,673)	**(1,909)**
Weighted average number of shares	**1,930,771,483**	1,256,782,911	**1,238,066,657**
Basic and diluted loss per share	**($0.11 cents)**	($0.78 cents)	**($0.14 cents)**

Consolidated statement of financial position
For the six months ended 30 June 2015

	30 June 2015 (unaudited) US$'000s	31 December 2014 (audited) US$'000s	30 June 2014 (unaudited) US$'000s
Assets			
Non-current assets			
Intangible assets	**-**	-	735
Property, plant and equipment	**5,522**	2,823	7,021
Available for sale investments	**534**	-	-
Total non-current assets	**6,056**	2,823	7,756
Current assets			
Inventories	**33**	51	57
Trade and other receivables	**464**	376	702
Cash and cash equivalents	**2,348**	5	323
Total current assets	**2,845**	432	1,082
Total assets	**8,901**	3,255	8,838
Liabilities			
Non-current liabilities			
Provisions	**684**	375	198
Total non-current liabilities	**(684)**	(375)	(198)
Current liabilities			
Trade and other payables	**1,719**	1,541	721
Borrowings	**361**	1,773	1,576
Provisions	**160**	160	-
Total current liabilities	**(2,240)**	(3,474)	(2,297)
Total liabilities	**(2,924)**	(3,849)	(2,495)
Net assets	**5,977**	(594)	6,343
Capital and reserves			
Share premium	**29,363**	21,244	20,420
Foreign currency translation reserve	**239**	75	(148)
Reverse acquisition reserve	**(8,202)**	(8,202)	(8,202)
Accumulated loss	**(15,423)**	(13,711)	(5,727)
Total equity	**5,977**	594	6,343

Consolidated statement of changes in equity
For the six months ended 30 June 2015

	Share capital	Share premium	Shares to be issued	Foreign currency translation reserve	Reverse acquisition reserve	Accumulated loss	Total equity
	US$'000s	US$'000s	US$'000s	US$'000s	US$'000s	US$'000s	US$'000s
Balance at 1 January 2014 (audited)	**-**	**20,420**	**-**	**(30)**	**(8,202)**	**(4,140)**	**8,048**
Total comprehensive loss for the period	-	-	-	(118)	-	(1,791)	(1,909)
Share options issued	-	-	-	-	-	67	67
Share warrants issued	-	-	-	-	-	137	137
Balance at 30 June 2014 (unaudited)	**-**	**20,420**	**-**	**(148)**	**(8,202)**	**(5,727)**	**6,343**
Total comprehensive loss for the period	-	-	-	223	-	(7,987)	(7,764)
Issue of shares	-	824	-	-	-	-	824
Share warrants issued	-	-	-	-	-	3	3
Balance at 31 December 2014 (audited)	**-**	**21,244**	**-**	**75**	**(8,202)**	**(13,711)**	**(594)**
Loss for the period	-	-	-	-	-	(2,141)	(2,141)
Other comprehensive income for the year							
Gain on available for sale investments	-	-	-	-	-	66	66
Currency translation differences	-	-	-	164	-	-	164
Total comprehensive loss for the period	-	-	-	164	-	(2,075)	(1,911)
Issue of shares	-	9,030	-	-	-	-	9,030
Share issue costs	-	(621)	-	-	-	-	(621)
Share warrants issued	-	(290)	-	-	-	363	73
Balance at 30 June 2015 (unaudited)	**-**	**29,363**	**-**	**239**	**(8,202)**	**(15,423)**	**5,977**

Consolidated statement of cash flows
For the six months ended 30 June 2015

	Six months ended 30 June 2015 (unaudited)	Year ended 31 December 2014 (audited)	Six months ended 30 June 2014 (unaudited)
	US$'000s	US$'000s	US$'000s
Cash flows from operating activities:			
Net loss for the period / year	**(2,141)**	(9,778)	(1,791)
Items not involving cash:			
Depreciation of property, plant and equipment	**50**	128	75
Impairment	**-**	6,332	-
Loss on disposal of property, plant and equipment	**66**	-	-
Share-based payment expense	**83**	56	67
Finance cost	**357**	493	127
Finance income	**(3)**	(52)	-
Change in working capital items:			
Decrease/ (Increase) in inventories	**18**	(20)	(26)
(Increase)/ Decrease in receivables	**(41)**	417	(57)
(Decrease)/ Increase in trade and other payables and provisions	**(141)**	1,451	203
Net cash used in operations	**(1,752)**	(973)	(1,402)
Cash flows from investing activities			
Acquisition of subsidiary (net of cash)	**1**	-	-
Purchases of property, plant and equipment	**(56)**	(1,960)	(1,060)
Receipts for farm-in/disposals	**45**	775	750
Purchase of available for sale investments	**(468)**	-	-
Proceeds from related parties	**-**	-	148
Interest received	**3**	-	-
Net cash used in investing activities	**(475)**	(1,185)	(162)
Cash flows from financing activities			
Proceeds from issue of share capital	**6,785**	-	-
Share issue costs	**(621)**	-	-
Proceeds from borrowing	**-**	2,134	1,737
Costs of issue	**-**	(160)	(150)
Repayments of loans	**(1,579)**	(162)	-
Loan and bank interest paid	**(36)**	(20)	-
Net cash generated by financing activities	**4,549**	1,792	1,587
Net (decrease) / increase in cash and cash equivalents	**2,322**	(366)	23
Cash and cash equivalents, beginning of period / year	**5**	319	319
Effect of foreign exchange rate changes	**21**	52	(19)
Cash and cash equivalents, end of period / year	**2,348**	5	323

Notes to the consolidated financial statements (unaudited)
For the six months ended 30 June 2015
(Stated in thousands of U.S. dollars)

1. Basis of presentation

Northcote Energy Ltd (the "Company") is presenting unaudited financial statements as of and for the six months ended 30 June 2015. The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2015 comprise the result of the Company and its subsidiaries (together referred to as the "Group").

The condensed interim financial information for the period 1 January 2015 to 30 June 2015 is unaudited. The comparatives for the full year ended 31 December 2014 do not represent the Company's full accounts for that year although they were derived from them. The auditor's report on those financial statements was unqualified. It does not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2014 Annual Report.

The financial information contained in this interim report does not constitute full accounts, which are available from the companies website www.northcoteenergy.com. The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated interim financial statements have been prepared using the accounting policies which will be applied in the Group's financial statements for the year ended 31 December 2015. As allowed under the AIM rules the condensed interim financial information has not been prepared in accordance with IAS 34.

The same accounting policies, presentation and methods of computation are followed in the interim consolidated financial statements as were applied in the Group's latest annual audited financial statements except that in the current financial year, the Group has adopted a number of revised Standards and Interpretations. However, none of these has had a material impact on the Group's reporting. In addition, the IASB has issued a number of IFRS and IFRIC amendments or interpretations since the last annual report was published. It is not expected that any of these will have a material impact on the Group.

The interim consolidated financial statements were approved by the board and authorised for issue on 29 September 2015.

1.1. Going concern

The Group has ambitious plans and the Board recognises that further funds will be required in order to fully realise its ambitions. The Group has a track record of showing that it uses a variety of options at its disposal in funding its commitments, whether it is through operational cash flow, new equity, farm-ins and disposals. This flexibility gives the Directors discretion around when expenditure is incurred but it is probable that further equity finance will be required at some point during the next 12 months. The Board is confident that capital will be available to allow it to fully realise its strategic goals and that the Company will have the necessary resources available for the Company to fully finance its future working capital and discretionary capital expenditures beyond the period of 12 months of the date of this report. Accordingly these interim financial statements have been prepared on a going concern basis.

2. Segmental analysis

In the opinion of the Directors, as at the 30 June 2015 the operations of the Group comprise one single operating segment comprising exploration, production, development and sale of hydrocarbons and related activities. The majority of the Group's operations in the period related to one geographic area, USA. The Group has head office operations in the UK and Mexico but the quantitative thresholds of IFRS 8 are only met for the USA, which is therefore the Group's one reportable segment and the Directors consider that the primary financial statements presented substantially reflect all the activities of this single operating segment.

3. Share capital

Authorised:

Unlimited number of ordinary shares of Nil par value

Allotted, called-up and fully paid:	Number	Pence per share	Share premium $'000s
Balance at 30 June 2014	**1,238,066,657**	**-**	**20,420**
August 14 - consideration shares*	22,875,817	0.9p	341
October 14 - Loan conversion*	56,569,974	0.53p	483
Balance at 31 December 2014	**1,317,512,448**	**-**	**21,244**
Jan 15 - Darwin conversion	95,219,212	0.16p	227
Feb 15 - Darwin conversion	175,000,000	0.09p	240
Feb 15 - Placing	1,555,725,004	0.09p	2,133
Cost of placing	-	-	(173)
Feb 15 - Directors and consultants	236,564,367	0.10p	324
Apr 15 - NAP USA consideration	1,266,074,005	0.09p	1,695
Apr 15 - Directors and consultants	102,042,484	0.09p	153
May 15 - Placing	1,244,444,444	0.225p	4,238
Cost of placing	-	-	(737)
May 15 - Warrant exercise	12,500,000	0.10p	19
Balance at 31 December 2014	**6,005,081,964**	**-**	**29,363**

* Non-cash item per the consolidated cash flow statement

4. Share based payment

At 30 June 2015 the following share options or warrants were outstanding in respect of the ordinary shares:

Grant Date	Expiry Date	At 01.01.14	Issued in period	At 30.06.14 and 31.12.14	Issued in period	Exercised in period	At 30.06.15	Exercise Price	Exercisable at 30.06.15	Exercisable at 31.12.14	Exercisable at 30.06.14
			000's	000's	000's	000's	000's		000's	000's	000's
14.01.13	14.01.16	1,000	-	1,000	-	-	1,000	1.00p	1,000	1,000	1,000
14.01.13	14.01.16	14,669	-	14,669	-	-	14,669	1.00p	14,669	14,669	14,669
22.03.13	22.03.16	6,000	-	6,000	-	-	6,000	1.50p	6,000	6,000	6,000
03.04.13	03.04.18	14,000	-	14,000	-	-	14,000	1.75p[1]	14,000	14,000	14,000
03.04.13	03.04.18	17,500	-	17,500	-	-	17,500	2.25p[2]	-	-	-
03.04.13	03.04.18	17,500	-	17,500	-	-	17,500	3.25p[3]	-	-	-
26.02.14	26.02.16	-	54,545	54,545	-	-	54,545	1.10p	54,545	54,545	-
11.07.14	11.07.17	-	13,636	13,636	-	-	13,636	1.10p	13,636	13,636	-
27.01.15	27.01.166	-	-	-	2,500	-	2,500	0.20p	2,500	-	-
27.01.15	27.01.16	-	-	-	2,500	-	2,500	0.20p	2,500	-	-
12.02.15	12.02.18	-	-	-	62,981	-	62,981	0.09p	62,981	-	-
20.04.15	20.04.20	-	-	-	12,500	(12,500)	12,500	0.01p	-	-	-
20.04.15	20.04.18	-	-	-	90,750	-	90,750	0.23p	90,750	-	-
		70,669	68,182	138,851	171,231	(12,500)	297,582		262,582	108,850	35,669

The options and warrants have been valued using the Black-Scholes valuation method and the assumptions used are detailed below. The expected future volatility has been determined by reference to the historical volatility:

Grant date	Share price at grant	Exercise price	Volatility	Option life	Dividend yield	Risk-free investment rate	Fair value per option
14-01-13	1.00p	1.00p	60%	3 years	0%	1%	0.655cents
22-03-13	1.50p	1.50p	60%	3 years	0%	1%	0.922cents
03-04-13	1.48p	1.75p	40%	5 years	0%	1%	0.694cents
03-04-13	1.48p	2.25p	40%	5 years	0%	1%	0.523cents
03-04-13	1.48p	3.25p	40%	5 years	0%	1%	0.317cents
26-02-14	0.76p	1.10p	45%	3 years	0%	1%	0.247cents
11-07-14	0.71p	1.10p	45%	3 years	0%	1%	0.193cents
27.01.15	0.14p	0.20p	100%	1 year	0%	1%	0.059cents
27.01.15	0.14p	0.25p	100%	1 year	0%	1%	0.047cents
11.07.15	0.76p	1.10p	100%	3 years	0%	1%	0.047cents
12.02.15	0.09p	0.09p	100%	3 years	0%	1%	0.09 cents
20.04.15	0.11p	0.10p	100%	5 years	0%	1%	0.124cents
05.05.15	0.225p	0.225p	100%	3 years	0%	1%	0.026cents

The Group recognised $363,000 (30 June 2014: $204,073) related to equity-settled share based payment transactions during the period, of which $Nil (30 June 2014: $137,462) was charged to the convertible loan account as it related to cost of issue and $290,134 (30 June 2014: $Nil) was charged to share premium and $72,866 (30 June 2014: $66,611) was expensed.

5. Financial instruments

	Directors loans $'000s	Riverbend/ Horizon $'000s	Convertible loan note $'000s	**Total $'000s**
Brought forward at 1 January 2014	-	-	-	**-**
Initial drawdown	-	-	1,737	**1,737**
Costs of issue - share based payment	-	-	(287)	**(287)**
Interest and fee amortisation	-	-	126	**126**
Carried at 30 June 2014	**-**	**-**	**1,576**	**1,576**
Initial drawdown	122	187	397	706
Costs of issue	-	-	(24)	(24)
Repayments	-	-	(644)	(644)
Interest and fee amortisation	5	-	297	302
Foreign currency revaluation	-	-	(143)	(143)
Carried at 31 December 2014	**127**	**187**	**1,459**	**1,773**
Acquired in business combination	-	361	-	361
Conversion	(45)	-	(467)	(512)
Repayments	(85)	(183)	(1,311)	(1,579)
Interest and fee amortisation	3	-	319	322
Carried at 30 June 2015	**-**	**365**	**-**	**365**

Principal terms and the debt repayment schedule of the Group's unsecured loans and borrowings during the year were as follows:

	Currency	Interest rate	Effective interest rate	Year of maturity
Convertible loans	US$	Nil%	18%	2015
Horizon Drilling partners	US$	5%	5%	2016
Loan notes	GBP/US$	0% - 2%pm	0% - 2%pm	On demand

The Group has no exposure at the year end to interest rate changes, and is not subject to any contractual re-pricing. As at the period end the fair values of the loans and borrowings equated to their carrying values. On 27 February 2015 the Group fully paid down and settled its zero coupon convertible bonds with Darwin Strategic Limited.

6. Related party transactions

Riverbend and Horizon are associated entities each with significant shareholdings in the Group. The details of amounts outstanding with related parties are detailed in the table below:

	Amounts due at 30.06.15 $'000s	Amounts due at 31.12.14 $'000s	Amounts due at 30.06.14 $'000s
Daniel Jorgensen	**-**	82	-
Randall Connally	**-**	45	-
Horizon/Riverbend	**365**	187	210
	365	**314**	**210**

7. Acquisition of NAP USA Inc

On 13 January 2015 the Group entered into a conditional sale and purchase agreement with North American Petroleum PLC ("NAPP") for the acquisition of NAP USA Inc, which outlined that the eventual consideration payable would be 29.9% of Northcote's enlarged issued share capital as of the date of closing (the 'Consideration Shares'). On 12 February 2015 the acquisition of NAP USA, Inc. went unconditional and the Company was committed to issuing 1,266,074,005 ordinary shares at 0.009p each, which equated to $1,736,000 of consideration.

In accordance with IFRS 3 (Revised) the details of the acquisition are below:

Total consideration	**$000's**
Equity instruments in issue (1,266,074,005 ordinary shares at 0.009p each)	**1,738**

Recognised amounts of identifiable assets acquired and liabilities assumed based on NAP USA Inc. balance sheet at 28 February 2015 recorded at fair value	
NON-CURRENT ASSETS	
Property Plant & Equipment - oil and gas assets (note 11)	2,794
Total non-current assets	2,794
CURRENT ASSETS -	
Cash and cash equivalents	1
Receivables	17
Total receivables	18
TOTAL ASSETS	2,812
NON-CURRENT LIABILITIES	
Decommissioning provision	(280)
Total non-current liabilities	(280)
CURRENT LIABILITIES	
Trade and other receivables	(432)
Note payable	(361)
Total current liabilities	**(793)**
TOTAL LIABILITIES	1,074
Fair value of total net assets	**1,738**

The revenue attributable to NAP USA Inc. prior to acquisition totaled $91,000 generating a loss for the period $46,000 for the two month period ended 28 February 2015 that will not be included in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2015. The costs related to the acquisition totaled approximately $45,000.

8. Events after the reporting date

In July 2015 Northcote sold its entire interest in South Weslaco for US$350,000, settled through the issue of partnership units in a limited partnership, investing in oil and gas assets, called Springer Energy and a $10,000 cash contribution to Northcote's costs.

END

IR QKLFLEKFZBBX