

**HIGHLANDS NATURAL RESOURCES plc
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016**

Company Registered Number: 09309241

**HIGHLANDS NATURAL RESOURCES PLC
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OFFICERS AND PROFESSIONAL ADVISERS

Directors (<i>all executive</i>)	Robert Brooks Price Jon Melvyn Davies
Company Secretary	Jon Melvyn Davies
Head Office & Registered Office	9 Limes Road Beckenham Kent BR3 6NS
Auditors	Saffery Champness 71 Queen Victoria Street London EC4V 4BE
Brokers and financial advisers	Cenkos Securities plc 6.7.8 Tokenhouse Yard London EC2R 7AS
Solicitors	DAC Beachcroft LLP 100 Fetter Lane London EC4A 1BN
Registrars	Share Registrars Limited 9 Lion and Lamb Yard Farnham Surrey GU9 7LL
Principal bankers	Clydesdale Bank 35 Regent Street London SW1Y 4ND
Financial Public Relations	St Brides Partners Ltd 3 St Michael's Alley London EC3V 9DS
Company website	www.highlandsnr.com

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EXECUTIVE CHAIRMAN'S REVIEW AND STRATEGIC REPORT

The year under review saw Highlands successfully list the Company's shares on the Main Market, following which we rapidly delivered on our strategy to capitalise on the depressed oil price environment by building an integrated resources company with exposure to exploration, development and related technologies positioned for the current commodity price environment. We believe that by pursuing this path now, when we benefit from low acquisition costs, we will be in a strong position to capitalise when oil prices recover. By following this strategy, we now have 75% ownership in patents for DT Ultravert, a diverter "re-fracking" technology with the potential to transform the US oil and gas industry by increasing production without the cost of drilling a new well. Building on this intellectual property, Highlands has established Indicative Terms with leading oil and gas services provider Schlumberger and post period end secured a licence agreement with CalFrac which we believe will facilitate commercialisation of the technology subject to successful testing.

Additionally, Highlands has also acquired 1,972 acres of land targeting the Niobrara and Muddy formations in Emmons county, North Dakota, USA which includes the shallow natural gas prospect, "Gravity", and we continue discussions with Strata-X to acquire and complete a well on the acreage, and will provide further updates if and when discussions advance.

Highlands has also acquired approximately 1,384 acres in Grand County, Utah, USA which presents us with an in-situ uranium mining opportunity, and Highlands is currently in discussions with suitable organizations to commission a competent person's report for this opportunity.

In June 2016, Highlands acquired approximately 59,033 acres located in Custer, Carter and Fallon Counties, Montana, USA representing the potential natural gas and helium prospect, "Helios Two," which is the subject of a pending competent person's report by RPS Knowledge Reservoir. In line with our stated strategy reported on acquisition, we have entered into a heads of terms agreement with London listed Opera Investments plc ('Opera') by which Opera will acquire this prospect (the 'Acquisition') with completion anticipated during the summer of this year. The consideration for the Acquisition will be the issue of new ordinary shares by Opera representing approximately 55 per cent. of its enlarged capital. The heads of terms also stipulate that Opera will reimburse Highlands for all of the professional costs incurred by Highlands on this project, the majority of which occurred post year end, as well as any costs of further leases that could be acquired for the project (with any such further leases also being the subject of the proposed disposal). This transaction validates our ability to acquire assets at low cost and rapidly organise a deal whereby we retain exposure, but at no direct cost to the Company.

With test work due to commence for DT Ultravert in the coming months, and discussions ongoing in relation to a number of our assets, we anticipate that the year ahead will be positive and we are confident that we are well positioned to continue delivering value to shareholders.

DT Ultravert represents a very exciting element of our portfolio given its potential to be a disruptive technology within the oil and gas sector. We acquired our stake in the pending

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patents in May 2015 and following acquisition, experienced a period of suspension from the LSE while we completed the transaction. We were readmitted to the Official List of the UK Listing Authority by way of a Standard Listing in February 2016 which was a highlight for Highlands and shareholders alike.

Given a broad reduction in Capex budgets across the oil and gas industry, operators are searching for a diverter technology which can re-stimulate existing horizontal wells, thereby increasing production without the cost of new drilling. Well stimulation (fracking) is a US\$50 billion per year industry and re-stimulation is an emerging part of the industry due to the current depressed oil and gas pricing environment. Therefore, a successful technology will have excellent recurring revenue potential by way of a licensing agreement and ongoing royalty payments. An independent report by RPS Knowledge Reservoir highlighted a series of unique advantages which differentiates DT Ultravert from other competitive solutions and confirmed that, if the technology is successful, it has the ability to revolutionise the way certain wells are stimulated. The independent report asserted that our technology, which is gas-based, could deliver a step increase in well productivity, reduce formation damage, offer a net increase in reservoir contact by individual wells and their associated fracture stages, facilitate ease of use and deployment in the right formation, and provide superior well production and large bottom line profit potential. The report assessed the economic returns for the investment in the DT Ultravert technology and confirmed that modelling shows a rapid payback of the initial investment and a NPV (10.5%) project value of \$58.3 million considering per job revenue of 2% royalty based on fracturing ticket pricing.

Testament to its potential, we have significantly advanced discussions with two parties in relation to potentially commercialising this prospective technology. Under the terms of these agreements we act as a third party technology provider. During the period we signed an Indicative Terms Agreement with Schlumberger Technology Corporation ('Schlumberger'), a 100% owned subsidiary of Schlumberger Limited, the world's leading supplier of technology, integrated project management and information solutions to customers working in the oil and gas industry. The Indicative Terms specify Schlumberger's role in conducting five field trials to test DT Ultravert at no cost to Diversion Technologies or Highlands. Together, Highlands and Schlumberger are in on-going discussions with over 20 exploration and production companies in the US to commercialise DT Ultravert. These discussions relate to acquiring refrac candidate wells in the USA's Piceance Basin, the Denver-Julesburg Basin, the Appalachian Basin, the Williston Basin and the Permian Basin. The first of the tests will be held between July and September 2016 focused on the Piceance Basin. We look forward to receiving the test results, which will be an important milestone towards our roll out of Highlands' technology asset.

Post period end, we also signed a licence agreement with Calfrac Well Services Corp. ('CalFrac'), a leading pressure-pumping provider in the US, in relation to DT Ultravert. CalFrac has licensed DT Ultravert on a shared exclusivity basis for use in connection with its commercial Hydraulic Fracturing operations, activities and services in seven states of the United States of America. The licence agreement has an initial term of two years and will then automatically renew for

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consecutive one-year periods, unless and until terminated. Additionally, Highlands has the exclusive right to market nitrogen gas to CalFrac at current market rates for all fracking operations undertaken by CalFrac using DT Ultravert throughout the term of the licence agreement. CalFrac will endeavour to provide certain data to Highlands, which the Company and Diversion may use with a view to the further development of the DT Ultravert re-fracking technology. Highlands and Diversion are also entitled to a 2% royalty based on the revenue received by CalFrac from each fracking operation during the term of the licence agreement which uses the DT Ultravert re-fracking technology.

These agreements highlight the industry's demand for a new technology to disrupt current processes and the economics associated with them.

Adding further endorsement to DT Ultravert is the appointment of Mr. Domingo Mata, who agreed to join Highlands as lead Marketing Manager of DT Ultravert post period end in June 2016. Mr. Mata was formerly the Senior Production Engineer and Stimulation Domain Manager of Schlumberger and is a very highly regarded member of the well stimulation technology community. We are therefore very pleased to have him on board and I am confident that his involvement will successfully deliver us a range of exciting new leads and will help to solidify the range of discussions with oil and gas companies already underway.

Highlands now benefits from a suite of 19 DT Ultravert patent filings, and these will be marketed jointly by Schlumberger and CalFrac alongside Highlands' own marketing efforts. In addition to Highlands' core diversion technology, our expanded patent filings enable the use of DT Ultravert technology to protect existing wells (known as 'parent wells') from damage caused by a new threat that has emerged to the industry, known as 'bashing'.

Well bashing has become a serious threat to the US shale industry. A significant population of mature wells (known as parents) has resulted from the industry's initial rush to drill and hold leases before their expiration during the shale revolution from approximately 2006 up until the oil price slump in 2015. Thousands of parent wells exist in the US. Rather than completely develop all the infill well locations, the industry focused instead on drilling the minimum number of wells required to hold each lease. The infill locations were booked as Proved Undeveloped Reserves and reserved for later development. During the past few years some of these infill locations have been drilled (known as a child well). The industry has learned that in many cases the fracking of the child wells results in damage to the parent wells. Frack fluids and sand often enter the parent fracture network and well bores flooding the system with water.

DT Ultravert offers a potential solution to the industry's emerging challenges of minimizing and defending against the effects of well bashing. Using DT Ultravert technology, it may be possible to preferentially pressurize a portion of parent wells adjacent to planned child wells in advance of drilling the child well. In this way, DT Ultravert may serve the dual purpose of protecting existing wells from bashing and introducing a preferentially lower pressured zone to facilitate and target new fractures. Ultimately, employment of DT Ultravert in order to protect a parent

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well may become an emerging new application of the technology. If a cost effective solution to well bashing is not discovered, potential reserves which have already been booked by the industry as Proven Undeveloped, may in fact be subject to revisions due to the cost associated with protective measures and from potential loss of production.

The Company plans its first test for this application in the Denver Basin, USA later this year and is currently in discussions with parties to secure an arrangement for this.

Oil and Gas Acreage Acquisition Strategy

In tandem with our focus on commercialising DT Ultravert, we are also actively acquiring assets at low cost to capitalise on the current depressed pricing environment.

Gravity Prospect, Emmons County, North Dakota, USA

In November 2015, the Company acquired approximately 1,972 net acres in the Williston Basin for US\$19,728 on a shallow natural gas prospect targeting both the Niobrara and Muddy formations of Emmons County, North Dakota. We consolidated our acreage position in May 2016 via the acquisition of exploration licences covering approximately 1,979 acres in the same area, bringing the Company's total acreage holding in the area to approximately 3,951 acres. We satisfied the total consideration of US\$34,139 via cash payments. We are now in discussions to acquire and complete a well from Strata-X. Whilst there can be no certainty that these discussions will be successful, we expect that the cost to complete the well would be approximately US\$50,000. Highlands is targeting completion of the well by late 2016, subject to concluding the acquisition. The target formations in the well are relatively shallow beginning at 1,300 feet. The Company plans to perform an extended test on the Niobrara formation for both gas and water production to define rates and gas-to-water ratio behaviour over the test period. We expect high initial water production and believe that over the test period, gas will climb to commercial rates.

"Helios Two" Helium Prospect, USA

In line with our strategy to evaluate value adding acquisitions, post period end Highlands acquired exploration licences covering approximately 59,033 acres located in Custer, Carter and Fallon Counties, Montana representing the project "Helios Two". The consideration of US\$91,050.73 was satisfied through a cash payment.

As mentioned earlier in this report we have successfully entered into heads of terms with Opera by which Opera will acquire this prospect, with completion anticipated during the summer of this year. The consideration for the acquisition will be the issue of new ordinary shares by Opera representing approximately 55% of its enlarged capital. The heads of terms also stipulate that Opera will reimburse Highlands for all of the professional costs incurred by Highlands on this project, the majority of which occurred post year end, as well as any costs of further leases that could be acquired for the project (with any such further leases also being the subject of the proposed disposal).

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Both parties believe that the Helios Two assets represent a significant opportunity to take advantage of a potentially significant helium resource, at a time of global concerns around helium scarcity and helium price increases. Via this deal, we retain exposure to this exciting prospect at no direct cost, thereby enabling us to focus on commercialising DT Ultravert and advancing our additional assets.

It is the intention to establish a team dedicated to the development and commercialisation of the Helios Two project. Numerous shows of gas have been encountered across the Helios Two target region. Historic gas analysis reveals that the gas contains elevated concentrations of helium (0.36 percent) similar to the producing USA Hugoton helium field, which is the largest natural accumulation of helium in the United States. Consequently, Highlands and Opera believe that a significant volume of gas, containing helium, could exist in this region which, if correct, would represent a significant helium resource in North America. Further investigations are required and Highlands has commissioned RPS Knowledge Reservoir to prepare a competent person's report in this regard. .

Helium is an essential feedstock for numerous industrial, medical, scientific and commercial applications including nuclear power generation, magnetic resonance imaging ('MRI'), industrial fabrication and welding, fundamental sciences and research, fiber optics, space and defence applications, semiconductor manufacturing, and many other applications. Significantly, helium currently has no substitute in cryogenic applications requiring temperatures below -220 degrees Celsius. Highlands believes that helium's role as a critical and irreplaceable component of numerous modern industries will underpin future global demand.

To support Helios Two, we are very pleased that Mr. Ben Reinhoehl has joined our Advisory Board given his 40 years of experience from Air Products & Chemicals, Inc., where he was responsible for the worldwide helium and hydrogen product lines and the development of new sources of these gasses. Specifically, Mr. Reinhoehl negotiated all crude and refined helium supply contracts for Air Products and also developed the first liquid helium supply in Algeria from LNG tail gasses.

The competent persons report commissioned with RPS Knowledge Reservoir is already well advanced and we are working together with Opera to finalise the other conditions precedent ahead of the acquisition completing. The parties will update their respective shareholders in due course but, at the present time, we expect that Opera will publish its shareholder documentation during the summer with its shareholder meeting being convened, and the acquisition completing, shortly thereafter.

In Situ Solution Mining Prospect, Grand County, Utah

In March and May 2016, Highlands acquired 67 unpatented mining claims covering approximately 1,384 acres in Grand County, Utah. The Company became interested in the potential of this project while evaluating an anomalous well log in the region which indicated potential high concentrations of uranium. Gamma log readings are generally considered elevated when the American Petroleum Institute (API) units exceed 1,000 in a sandstone.

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Highlands' prospect reveals API units ranging from 3,000 to over 8,000 throughout several feet in the formation.

In situ solution mining is a more cost effective and environmentally acceptable technique of extracting uranium, as compared to conventional methods. Conventional methods typically excavate rock from the ground and treat it on the surface to extract the minerals. In situ solution mining allows the operator to leave the rock in the ground and extract the uranium by dissolving the minerals with a solution and pumping them to the surface where they can be processed. Highlands' mining claims in Utah may contain significant quantities of uranium, which if proven, could be an ideal candidate for in situ solution mining.

Highlands has agreed to pay Ticaboo a production royalty of 2% from 34 of the mining claims covering approximately 702 acres and a royalty of 1% on the 33 Mining Claims staked by Highlands covering approximately 681 acres.

Highlands has commenced discussions with suitable organisations to commission a competent person's report with the preparation of this report scheduled to be completed in the coming months. The Company has also identified potential partners for the next work stages on these mining claims.

RISKS AND UNCERTAINTIES FACING THE GROUP

The uncertainties and risks facing the Group can be split between those facing all participants in the oil and gas development industry and those which are more specific to the Group's aims and business plans.

The Board monitors and mitigates a more detailed list of risks but the ones listed below are considered to be the most important because of the likelihood of their occurrence or the materiality of their potential impact.

Risks relating to the natural resources sector

Continued depressed oil prices may adversely affect the Group's business and prospects

The current comparatively low world prices for oil and gas has thrown up significant financial challenges for many entities within the sector and its continuation for any appreciable future time could exacerbate those. However, we consider these issues to also present opportunities for different companies or innovative technologies to exploit. The Group has sought to take advantage of weaker asset prices to acquire potentially profitable assets as well as develop and commercialise technology aimed at reducing extraction costs. Whilst the Board believes that these acquisitions can prove profitable even in current economic conditions, a prolonged period of low prices will obviously reduce the revenue earning potential of the Group in the long term.

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Governmental instability including political, legal and commercial instability in geographic areas in which the natural resources sector operates may affect the viability of the Group's operations
The Group has currently restricted itself to investigating North American opportunities.

Activities in the oil and gas sectors can be dangerous and may be subject to interruption
The Group is not currently involved in extraction and production but as and when it does start such development work its future operations will be subject to the significant hazards and risks inherent in the oil and gas sector and countries in which it operates. In addition, the Group's future operations will be subject to all of the risks normally incidental to the drilling of oil wells and the operation and development of oil properties. These risks include but are not limited to failing to discover oil, gas or other substances in paying quantities. The Board will seek to minimise the risks associated with these activities by the subcontracting of the key operational roles to highly skilled and reputable well operators.

Risks relating to development and commercialisation of existing assets

The patent technology may not work as intended
The Company has acquired rights in pending patents over the use of inert gas as a diverting agent in well stimulation. This approach is currently unproven and may ultimately prove to be unsuccessful or not commercially viable when utilised.

There may be challenges to the intellectual property
While the technology is protected by pending patents, the potential for competitors to use the same approach still exists. The strength of these pending patents, while believed by the Directors to be good, remains unproven until such time as they are granted. Potential legal action in this event could prove costly and delay progress.

Failure to achieve additional licensing agreements
The Company aims to sign licence agreements with major oilfield services companies, under which it could receive a signing fee, a royalty on each well in which its technology is used and potentially other fees. Whilst the Company has been successful in agreeing Indicative Terms for a licence agreement with Schlumberger and signing a license agreement with Calfrac Well Services, there is no certainty that further licence agreements will materialise or that the payments to the Company would be in line with the Directors' expectations.

Competition
There can be no assurance that potential competitors of the Company, which may have greater financial, development and marketing resources, will not develop products and strategies that are equally or more effective or economical as products or strategies developed using our technology or which would otherwise render our products or strategies obsolete.

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Commercialisation of leases and mining rights

The Group has acquired a number of leases and mining rights in different locations and with different target resources. These are at present all speculative prospects and the Group is identifying ways to best exploit their potential. There is inevitably an uncertainty over whether those sites will present the expected resources either at all or in sufficient available form to enable the Group to profitably commercialise these rights.

Risks relating to the Company's future acquisition strategy

The Company may not be able to find suitable acquisitions.

The Company's business strategy is to identify, evaluate and complete suitable acquisition opportunities in the natural resources sector. Should a suitable acquisition be identified and evaluated there is no guarantee that the Company will be able to complete the acquisition or that once a further acquisition is made that acquisition will produce positive returns for shareholders. Should the Company, for whatever reason, fail to attain a targeted acquisition then the Company may be left with substantial unrecoverable transaction costs.

Risks inherent in a further acquisition

Although the Company and the Directors will evaluate the risks inherent in a particular target, they cannot offer any assurance that all of the significant risk factors can be identified or properly assessed.

Ability to obtain additional financing for further acquisitions or to fund development operations

There is no guarantee that the Company will be able to obtain any additional financing needed to either complete a further acquisition or to implement its plans, or, if available, to obtain such financing on terms attractive to the Company. In that event, the Company may be compelled either to restructure or abandon or modify some acquisition and development plans. The failure to secure additional financing on acceptable terms could have a material adverse effect on the continued development or growth of the Company and the acquired business.

Key performance indicators

This is the first period of operation of the Company during which it has been focussed on establishing itself and acquiring suitable assets for future development and as yet the key performance indicators likely to be applicable to the overall operations have not been set. Once established, the Company's financial, operational, health and safety and environmental key performance indicators will be measured and reported as appropriate.

Gender analysis

A split of our employees and Directors by gender during the period is shown below:

	Male	Female
Directors	2	none
Employees	none	none

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Corporate social responsibility

We aim to conduct our business with honesty, integrity and openness, respecting human rights and the interests of our shareholders and employees. We aim to provide timely, regular and reliable information on the business to all our shareholders and conduct our operations to the highest standards. We strive to create a safe and healthy working environment for the wellbeing of our staff and create a trusting and respectful environment, where all members of staff are encouraged to feel responsible for the reputation and performance of the Company. We aim to establish a diverse and dynamic workforce with team players who have the experience and knowledge of the business operations and markets in which we operate. Through maintaining good communications, members of staff are encouraged to realise the objectives of the Company and their own potential.

Corporate environmental responsibility

The Company's policy is to minimise the risk of any adverse effect on the environment associated with its activities with a thoughtful consideration of such key areas as energy use, pollution, transport, renewable resources, health and wellbeing. The Company also aims to ensure that its suppliers and advisers meet with their legislative and regulatory requirements and that codes of best practice are met and exceeded.

Outlook

Highlands benefits from a strong and committed management team and exposure to a range of assets which we believe have the potential to deliver value to Highlands and its shareholders. The current oil and gas market has enabled us to purchase a range of assets at low cost in line with our strategy, and while capitalising on this environment, we are also focused on enabling lower cost production by testing, proving and potentially commercialising DT Ultravert. If this is successful, this technology's ability to disrupt the multi-billion dollar oil and gas industry is clearly evident.

The coming months are anticipated to be a very busy period for the Company, including the commencement of testing "DT Ultravert", the advancement of our current acreage, as well as the potential acquisition of additional low cost projects where we believe that our experienced team can add value. Having recently raised some money, we have a solid cash position and look forward to the months ahead, which we believe will bear fruit for shareholders, to which the Directors are significantly aligned.

I would like to take this opportunity to thank our shareholders, Board and advisers for their support during the period.

Robert Brooks Price
Executive Chairman
14 June 2016

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FINANCIAL REVIEW

This is the first period of operation for the Group and has been one of net cash outflow as the Group acquires assets and bears the costs of its staff, advisers and consultants for carrying out the various projects, reporting and acquisitions.

Funding

Highlands successfully raised £1,000,000 before costs on its formation and admission to the Standard List of the London Stock Exchange in March 2015. This was followed by raising a further £765,000 via a placing of shares in February 2016 and an additional £145,000 from the exercise of warrants by investors in February and March 2016 (all figures stated before the costs of the transactions).

A further share placing post period end together with additional warrant exercises has realised an extra £636,000 before costs.

Revenue

The Group has generated no revenue in the period. The transactions undertaken so far have focussed on the acquisition of assets and rights that will be capable of generating revenue for the Group in future years.

Administrative Expenses

Administrative expenses during the period amounted to £1,818,000. However, this figure includes non-cash charges of £636,000 in respect of the warrants issued during the period along with substantial legal and professional costs incurred in obtaining and maintaining the listing for the Group's shares.

Liquidity, cash and cash equivalents

At 31 March 2016, the Group held £717,000 in cash and cash equivalents. This was increased post period end via a placing of the Group's shares which raised £519,000 before costs plus further warrant exercises providing £117,500 and at 31 May 2016 the Group's cash position had increased to £996,000.

The net cash outflow from operating activities during the period was £1,108,000 against an operating loss of £1,818,000, primarily reflecting the impact of non-cash items such as amortisation and share option charges of £696,000.

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KEY PERSONNEL

Board

Robert Brooks Price

Executive Chairman

Robert B. Price, a US citizen, is a successful oil and gas executive based in Denver, Colorado, USA who has worked on oil and gas projects in North America and Eastern Europe. Mr. Price's joint venture relationships with oil and gas service companies and exploration companies will provide the Group with a broad range of contacts including: experts; managers; entrepreneurs; and opinion-formers in the natural resources sector. Mr. Price liaises with members of the United Kingdom investment banking community, to help achieve the Group's aims in securing farm-outs from independent and major oil and gas companies to establish holdings of significant acreage on behalf of the Group.

Mr. Price, originally from Colorado, immersed himself in Oklahoma's dynamic energy sector after receiving his Juris Doctorate Degree from the University of Tulsa. Subsequently he was Vice President, Trust Officer and Oil and Gas Trust Energy Department Manager of the First National Bank and Trust Company, now JP Morgan Chase Bank. He later formed Brooks Energy Company, which was active in both oil and natural gas exploration and production in the Mid-Continent and Rocky Mountain regions. He also purchased a distributed electric generation business from Tulsa-based Williams Companies, and owned S&R Equipment, a natural gas compressor manufacturing company and rental business. As founder and Chairman of Zeledyne, Mr. Price purchased Ford Motor Company's Glass division with plants in Tulsa, Nashville and Juarez, Mexico employing more than 1,200 people. More recently, as President and Chairman of Palomar Natural Resources' (Palomar) he led its rapid growth in developing oil fields in the US Denver-Julesburg Basin and its drilling program in the US San Juan Basin. During his period in office, Mr. Price was instrumental in raising US\$50,000,000 on behalf of Palomar. Mr. Price has also served on the advisory board of San Leon Energy plc, based in London, United Kingdom.

Melvyn Davies

Finance Director and Company Secretary

Melvyn Davies, British, is a Fellow of the Institute of Chartered Accountants in England and Wales. He has over 30 years' experience advising and assisting both large and small businesses across a wide range of industry sectors. Formerly a partner in a mid-sized accountancy firm, Mr Davies founded his own Chartered Accountancy practice in 1994, specialising in audit, primarily of regulated entities, and advice to owner managed businesses.

From 1996 to 2010 Mr Davies was Finance Director and Company Secretary of Silence Therapeutics plc, where he played a critical role in all aspects of the group's acquisitions policy along with day to day operational and financial issues. Mr. Davies was influential in listing the group on AIM and later on the main board of the London Stock Exchange as well as its expansion into Germany and the USA.

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KEY PERSONNEL

ADVISORY BOARD

The Executive Board created a team of advisers called the Advisory Board to assist the Board in furthering the development of the Group. Advisory Board members bring deep expertise in areas including oil and gas geology, petroleum engineering, hydraulic fracturing technologies, resource evaluation and development, marketing, fundraising and other important disciplines. Highlands' Advisory Board members add significant value through their existing relationships throughout the oil and gas industry, subject matter expertise and knowledge, and advanced professional skills. The Executive Board access the significant resource represented by the Advisory Board individual members as and when required on a regular basis. Highlands is proud to leverage the experience of the current Advisory Board, and looks forward to adding additional talented advisers in the future.

The biographical details of the members of the Advisory Board are set out below:

Paul Mendell

Mr. Mendell is a shareholder and director of Diversion Technologies LLC (“DT”) and the inventor of DT Ultravert. He is an oil and gas producer based in Castle Rock, Colorado, USA. He was a founder of an AIM listed iodine producer, Iofina. Mr. Mendell owns interests in over one hundred producing oil and gas wells which he has developed from properties he acquired and were subsequently acquired by larger firms including Anadarko, EnCana, Noble, Bill Barrett Corporation, and others. This production is in Colorado, North Dakota and Oklahoma. Mr. Mendell has made three new discoveries which were acquired by large companies including Enron and others. He is a self-educated geologist and is a well-respected developer of new concepts in exploration for oil, gas, iodine and other commodities. Mr. Mendell works for Mendell Energy, a Denver based independent oil and gas producer.

Clay Terry

Mr. Terry is the Technology Marketing Manager for Halliburton. Mr. Terry’s work focuses on alternative business applications for horizontal recompletions. Mr. Terry has more than 30 years’ experience in the oil and gas industry. He specialises in the use of alternative water sources for primary drilling and completion activities targeting ground water resources, both fresh and produced. Mr. Terry is a member of the Society of Petroleum Engineers and the American Petroleum Institute.

Randy Natvig

Mr. Natvig has 24 years’ of experience creating value in the oil and gas business at the forefront of changing innovations; most recently with Laramie Energy. He has expertise in acquisition evaluation and asset development. Mr Natvig has managed multi-rig drilling programs in major Rockies basins and improved Estimated Ultimate Recoveries (EURs) and Internal Rates of Return (IRR) through optimizing completions and infrastructure. He previously spent 14 years with Halliburton managing and designing hydraulic fracturing (fracking) techniques and improving drilling practices.

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KEY PERSONNEL

Mike Mullen

Mr. Mullen is President and founder of Stimulation Petrophysics Consulting, an Independent consultant performing petrophysical evaluations in United States, Australia, United Kingdom, and South America. He spent 25 years at Halliburton developing analytical tools for conventional and unconventional reservoir treatments. He developed software models for Halliburton to evaluate Tide Sands, Shale Oil/Gas and Coalbed Methane. Mr. Mullen led a team of geoscientists to explore for shale gas/oil in France, Germany, Poland, and Spain. He has 38 years of wireline logging and formation evaluation experience and has worked extensively with government officials while CEO at Realm International, now part of San Leon Energy plc.

Ben Reinoehl

Mr. Reinoehl brings 40 years of experience from Air Products & Chemicals, Inc., where he was responsible for the worldwide helium and hydrogen product lines and the development of new sources of these gasses. Specifically, Mr. Reinoehl negotiated all crude and refined helium supply contracts for Air Products and also developed the first liquid helium supply in Algeria from LNG tail gasses. Mr. Reinoehl is also the Owner and Principal of RMW Solutions, a consulting firm serving industrial gas companies, governments and research users of industrial gasses. Mr. Reinoehl offers to Highlands an extensive knowledge of helium gas markets and contract negotiation as well as an extensive network of helium industry participants.

Key advisers and consultants

Will Aspinwall, Internal Counsel and Business Development

Mr. Aspinwall received his J.D. from the University of California, Hastings College of the Law. Mr. Aspinwall clerked in the Ninth Circuit Court of Appeals where he worked on a wide array of issues including environmental law, municipal pensions and employment law. Following this he served as Deputy District Attorney in the Denver District Attorney's Office and then returned to San Francisco to work at the law firm of Keesal Young & Logan. Mr. Aspinwall has represented international shipping interests, oil and gas interests, multi-national banks and Fortune 500 companies. Mr. Aspinwall serves as a strategic legal adviser and head of business development to Highlands Natural Resources.

Eric Anderson, Land Manager

A third generation Landman, Mr. Anderson started in the field developing new and more efficient means of moving documents from courthouses to digital record systems, providing Landmen and clients with easy access to land and title information. For several years, Mr. Anderson worked as an independent Landman, negotiating oil & gas contracts in many of the ground breaking exploration and development plays in the Rocky Mountain Region. In 2011 he became a member of the Executive Management Team for a major oil & gas land company to lead new business development, foster client relationships, and manage the company's leasing projects and field crews. In 2015 Mr. Anderson began working on projects with Highlands Natural Resources and his role has expanded to that of Land Manager overseeing all matters relating to land including negotiations, contracts, title, leasing and GIS work.

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KEY PERSONNEL

Stephen Miller

Mr. Miller has a BS in Petroleum Engineering from Texas A&M University. He has over 9 years of experience in the oil and gas industry, including 6 years of field based experience. Mr Miller spent 5 years with Integrated Petroleum Technologies, a Golden, CO based Frac Consulting firm and has designed and treated hydraulic fracture treatments in every major US basin. He has also spent a further 3 years with Halliburton Energy Services as a field based engineer specializing in hydraulic fracturing.

Whit Childs

Mr. Childs is a petroleum geologist with over 5 years of experience in the oil and gas business. His first experience in the industry began tending wells in Pennsylvania during college. Mr. Childs Graduated from Colorado College with a Bachelor of Science (BS) degree in geology. After school Whit spent three years working for Recovery Energy, a small exploration company studying and working assets throughout the DJ basin. After Recovery, he joined Mendell Energy and helped analyze and evaluate assets for acquisition. Mr. Childs began working with Highlands in the fall of 2015.

Domingo Mata

A highly-regarded figure in the well stimulation community, Domingo Mata brings more than a decade of experience in petroleum engineering, well completion techniques, and a specialized focus in re-fracking technologies. Prior to joining the Highlands team, Mr. Mata served as Senior Production Engineer and Stimulation Domain Manager at Schlumberger for 9 years, where he participated in more than 200 completion procedures for more than 30 oil and gas operators. Critically, Mr. Mata led Schlumberger's evaluation and business development relationship with DT Ultravert technology, and his decision to join the Highlands team represents an important endorsement from a leader in the refracking industry. Mr. Mata has published research in a variety of industry journals, and authored a book chapter on completion optimization for unconventional resources. He holds a B.S. in Mechanical Engineering from Universidad Metropolitana (Caracas, Venezuela) and a M.S. in Petroleum and Natural Gas Engineering from West Virginia University.

Charles Cavness

Mr. Cavness holds an undergraduate geology degree from Middlebury College and an MBA from the University of Oxford's Said Business School, and brings a range of finance and business development experience to Highlands. Mr. Cavness previously served as an Associate at Petrie Partners, a Denver-based oil and gas investment bank, where he participated in capital raising, project finance, restructurings and divestiture projects for private and public E&P clients. Prior to Petrie Partners, Mr. Cavness held the position of Business Development Manager at Recurrent Engineering, a geothermal power developer, where he led business development efforts in Asia, Europe and North America.

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DIRECTORS' REPORT

The Directors present their report and the financial statements for the period ended 31 March 2016.

Principal Activity

The Group seeks to acquire oil and gas producing assets and other technology and mineral rights allied to the oil and gas sector. A detailed review of the activities for the period is given in the Strategic Report.

Results

The Group recorded a loss for the period before taxation of £1,816,671 and further details are given in the preceding Financial Review. No dividend has been paid during the period nor do the Directors recommend the payment of a final dividend.

Directors

The Directors who served at any time during the period were:

R B Price	Executive Chairman
J M Davies	Finance Director

As at 1 June 2016 Mr Price owns 12,000,000 ordinary shares in the Company (35.37%) and holds warrants in respect of 23,750,00 exercisable at 5p per share.

Mr Davies owns 200,000 ordinary shares in the Company (0.59%) and holds warrants in respect of 1,100,000, of which 1,000,000 are exercisable at 5p per share and the remaining 100,000 are exercisable at 10p per share.

Further details of the interests of the Directors in the warrants are set out in note 16 to the financial statements.

Substantial Interests

At 6 June 2016 the Company had been informed of the following substantial interests of over 3% of the issued share capital of the Company:

	Number	Percentage of Issued Share Capital
R B Price	12,000,000	35.37%
Diversion Technologies LLC*	1,900,000	5.60%

* Diversion Technologies LLC is a related party in which RB Price has an interest, see note 24

Share Capital

Highlands Natural Resources plc is incorporated as a public limited company, and is registered in England and Wales with the registered number 09309241. Details of the Company's issued

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DIRECTORS' REPORT

share capital, together with the details of the movements during the period, are shown in note 16. The Company has one class Ordinary share and all shares have equal voting rights and rank *pari passu* for the distribution of dividends and repayment of capital.

Corporate Governance Statement

The Board is committed to maintaining appropriate standards of corporate governance. The statement below, together with the report on Directors' remuneration on pages 19 to 24, explains how the Company has observed principles set out in The UK Corporate Governance Code ("the Code") as relevant to the Company and contains the information required by section 7 of the UK Listing Authority's Disclosure Rules and Transparency Rules.

The Company has decided not to apply the Code provisions in full given its current size and resources. The Company is a small company with modest resources. The Company has a clear mandate to optimise the allocation of limited resources to support its acquisition and future plans. As such the Company strives to maintain a balance between conservation of limited resources and maintaining robust corporate government practices. As the Company evolves, the Board is committed to enhancing the Company's corporate governance policies and practices deemed appropriate to the size and maturity of the organisation.

Board of Directors

The Board currently consists of two executive Directors. It met regularly throughout the period to discuss key issues and to monitor the overall performance of the Company. The Board has a formal schedule of matters reserved for its decision. With a Board comprising of just the two executive Directors, all matters and committees, such as Remuneration, Audit and Nominations are considered by the Board as a whole. The Directors are actively seeking to expand Board membership to provide additional levels of corporate governance procedures.

Audit Committee

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects in all interim, final and price-sensitive reports and information required to be presented by statute.

The Directors consider the size of the Group and the close involvement of executive Directors in the day-to-day operations makes the maintenance of an internal audit function unnecessary. The Directors will continue to monitor this situation.

External auditor

The Board will meet with the auditor at least twice a year to consider the results, internal procedures and controls and matters raised by the auditor. The Board considers auditor independence and objectivity and the effectiveness of the audit process. It also considers the nature and extent of the non-audit services supplied by the auditor reviewing the ratio of audit to non-audit fees and ensures that an appropriate relationship is maintained between the Company and its external auditor. The Company has a policy of controlling the provision of non-

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DIRECTORS' REPORT

audit services by the external auditor in order that their objectivity and independence are safeguarded.

As part of the decision to recommend the appointment of the external auditor, the Board takes into account the tenure of the auditor in addition to the results of its review of the effectiveness of the external auditor and considers whether there should be a full tender process. There are no contractual obligations restricting the Board's choice of external auditor.

Remuneration committee

There is no separate Remuneration Committee at present, instead all remuneration matters are considered by the Board as a whole. It meets when required to consider all aspects of directors' and staff remuneration, share options and service contracts.

Nominations committee

A nominations committee has not yet been established.

Advisory Board

The Executive Board created a team of advisers called the Advisory Board with deep expertise in areas including oil and gas geology, petroleum engineering, hydraulic fracturing technologies, resource evaluation and development, marketing, fundraising and other important disciplines and to whom the Executives can refer for assistance and guidance on a regular, albeit ad hoc, basis.

Internal financial control

Financial controls have been established so as to provide safeguards against unauthorised use or disposition of the assets, to maintain proper accounting records and to provide reliable financial information for internal use. Key financial controls include:

- the maintenance of proper records;
- a schedule of matters reserved for the approval of the Board;
- evaluation, approval procedures and risk assessment for acquisitions
- close involvement of the Directors in the day-to-day operational matters of the Group.

Shareholder Communications

The Company uses its corporate website (www.highlandsnr.com) to ensure that the latest announcements, press releases and published financial information are available to all shareholders and other interested parties.

The AGM is used to communicate with both institutional shareholders and private investors and all shareholders are encouraged to participate. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the Annual Report and Accounts. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution after it has been dealt with by a show of hands.

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DIRECTORS' REPORT

Directors' Remuneration Report

Remuneration policies (unaudited)

The remuneration policies were in effect from 18 March 2015 and it is intended that these policies will be continued for the next and subsequent years subject to any acquisition.

The remuneration policy is designed to attract, retain and motivate executive Directors and senior management of a high calibre with a view to encouraging commitment to the development of the Group and for long term enhancement of shareholder value. Remuneration packages take into account individual performance and the remuneration for similar jobs in other comparable companies where such companies can be identified. This would also be taken into account on appointment by any new Directors. The Board believes that share ownership by executive Directors and senior staff strengthens the link between their personal interests and those of shareholders although there is no formal shareholding policy in place.

The current Executive Directors' remuneration comprises a basic fee which is reviewed annually and which may be taken as salary or pension contribution, plus, in the case of US based staff, suitable health insurance provision. There is at present no bonus or long-term incentive plan in operation for the Directors.

Service contract terms	Base salary	Benefits In kind	Bonus or incentive plan
R B Price	US \$ 180,000	See below	n/a
J M Davies	£ 50,000	n/a	n/a

The service contracts are reviewed annually.

Benefits in kind (unaudited)

Currently the only benefit in kind is healthcare premiums which the Company pays for its US based personnel at the prevailing rates.

Service contracts (unaudited)

The executive Directors are employed on an initial fixed term of one year from 25 March 2015 and thereafter employment will continue until terminated by the Director or the Company giving six months' prior notice save in the case of a material breach of contract when the Executive Directors can be dismissed without notice.

In the event of a termination or loss of office the Director is entitled only to payment of his basic salary (plus healthcare costs if applicable) in respect of his notice period. In the event of a termination or loss of office in the case of a material breach of contract the Director is not entitled to any further payment.

R B Price is paid at an annual rate of \$180,000 and J M Davies at an annual rate of £50,000. Both Directors waived their fees from the date of incorporation until 30 September 2015.

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DIRECTORS' REPORT

Executive Directors are allowed to accept external appointments with the consent of the Board, provided that these do not lead to conflicts of interest. Executive Directors are allowed to retain the fees paid.

The contracts are available for inspection at the Company's registered office.

There were no employees during the period other than the Directors.

Approval by members (unaudited)

The remuneration policy above will be put before the members for approval at the next Annual General Meeting.

Implementation report (audited)

Particulars of directors' remuneration, including director's warrants which, under the Companies Act 2006 are required to be audited, are given in Notes 6 and 16 and further referenced in the Directors' report.

Remuneration paid to the Directors during the period was:

Executive Director	Base salary	Benefits In kind	Pension Contribution	Total
	£	£	£	£
R B Price	60,969*	20,928	-	81,897
J M Davies	- **	-	25,000	25,000

Both Directors waived their salary entitlements up to 30 September 2015.

* stipulated as \$180,000 per annum taken for 6 months

** salary waived in favour of pension contribution

There were no performance measures associated with any aspect of Directors' remuneration during the period.

Payments to past Directors (audited)

There were no payments to past directors during the period.

Payments for loss of office (audited)

There were no payments for loss of office during the period.

Bonus and Incentive plans (unaudited)

There were no bonus or incentive plans in operation during the period.

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DIRECTORS' REPORT

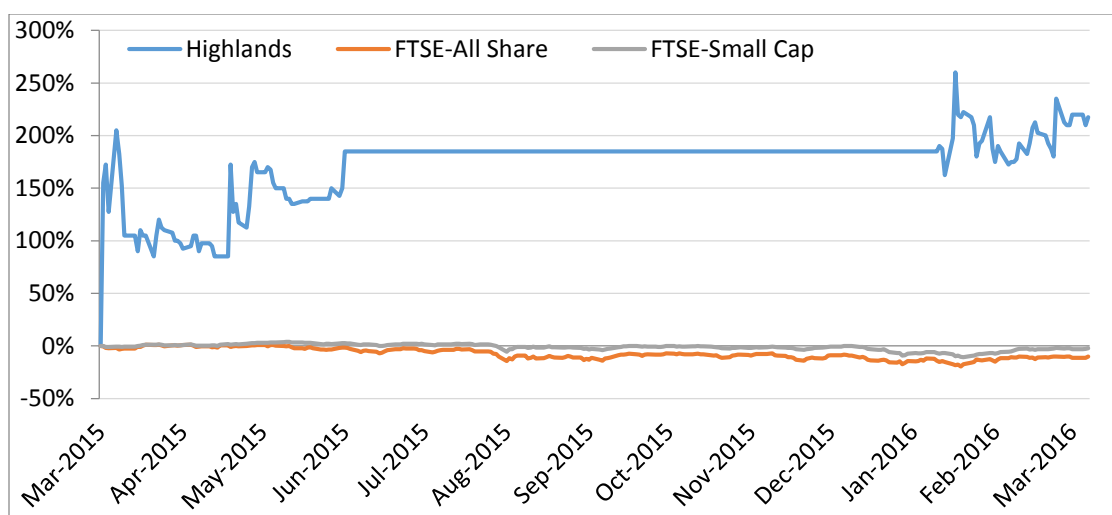
Relative importance of expenditure on remuneration (unaudited)

	2016	Year on year change: %
	£	
Total Directors remuneration	106,897	n/a
Distributions to shareholders	-	n/a

This is the first period of operation and thus there is no comparative or historic information to be given.

Total Shareholder Return (unaudited)

The following graph illustrates the percentage movement in the Company's share price from its floatation on 25 February 2015 to 31 March 2016 compared to the percentage movements over the same period of the FTSE-All Share and FTSE-Small Cap indices.



Directors interest in shares (audited)

The Company has no Director shareholding requirement.

The beneficial interest of the Directors in the ordinary share capital of the Company at 31 March 2016 was:

	Number
R B Price	12,000,000
J M Davies	200,000

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DIRECTORS' REPORT

The Directors held the following warrants at the beginning and end of the period:

Director	At Formation	Granted in the period	At 31 March 2016	Exercise price	Earliest date of exercise	Latest date of exercise
R B Price	-	23,750,000	23,750,000	Pence 5p	25/03/15	24/03/20
J M Davies	-	1,000,000 100,000	1,000,000 100,000	5p 10p	25/03/15 25/03/15	24/03/20 24/03/18
Total	-	24,850,000	24,850,000			

Remuneration committee (unaudited)

There is no separate Remuneration Committee at present, instead all remuneration matters are considered by the Board as a whole. It meets when required to consider all aspects of directors' and staff remuneration, share options and service contracts.

Statement (unaudited)

This is the Company's first period of operation. From the outset the Board has set out and implemented a policy designed in its view to attract, retain and motivate executive Directors of the right calibre and ability. There have been no major changes during the period either in that policy or its implementation, including levels of remuneration and terms of service for the Directors.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing this report and the financial statements in accordance with applicable United Kingdom law and regulations and those International Financial Reporting Standards ("IFRS") adopted by the European Union. Company law requires the Directors to prepare financial statements for each financial period which present fairly the financial position of the Company and the financial performance and cash flows of the Company for that period.

In preparing those financial statements, the Directors are required to:

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DIRECTORS' REPORT

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations, and for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Conduct Authority.

The financial statements are published on the Company's website <http://www.highlandsnr.com/>, The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website and accordingly, the Auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom covering the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

We confirm that to the best of our knowledge:

- the Company financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;

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DIRECTORS' REPORT

- this Annual Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Greenhouse Gas Disclosures

The Group has as yet minimal greenhouse gas emissions to report from the operations of the Company and its subsidiary and does not have responsibility for any other emission producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2014.

Disclosure and Transparency Rules

Details of the Company's share capital and share options and warrants are given in Notes 16 and 18 respectively. There are no restrictions on transfer or limitations on the holding of the ordinary shares. None of the shares carry any special rights with regard to the control of the Company. There are no known arrangements under which the financial rights are held by a person other than the holder and no known agreements or restrictions on share transfers and voting rights.

As far as the Company is aware there are no persons with significant direct or indirect holdings other than the Directors and other significant shareholders as shown on page 18.

The provisions covering the appointment and replacement of directors are contained in the company's articles, any changes to which require shareholder approval. There are no significant agreements to which the Company is party that take effect, alter or terminate upon a change of control following a takeover bid and no agreements for compensation for loss of office or employment that become effective as a result of such a bid.

Requirements of the Listing Rules

The following table provides references to where the information required by listing rule 9.8.4R is disclosed:

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DIRECTORS' REPORT

Listing Rule requirement

Details of long term incentive schemes as required by Listing Rule 9.4.3R	None – see Directors' Remuneration Report pages 19 to 24
Details of any arrangement under which a Director of the Company has waived emoluments from the Company	Directors' Remuneration Report page 22
Details of any allotment for cash of equity securities made during the period otherwise than to the holders of such equity shares other than in proportion to their holdings of such equity shares and which has not been specifically authorised by the Company's shareholders	Note 16 on page 54
Details of any contract of significance subsisting during the period to which the Company is a party and to which a Director of the Company is or was materially interested	Note 24 on page 60

Financial Instruments

The Company has exposure to credit risk, liquidity risk and market risk. Note 23 presents information about the Company's exposure to these risks, along with the Company's objectives, processes and policies for managing the risks.

Events after the reporting period

The Group has achieved a number of important development steps post period end.

On 26 April, agreement was reached to place a further 2,883,849 new ordinary shares at a price of 18p per share, raising approximately £519,000 before costs. In addition, since the period end further warrants were exercised by the holders resulting in the issue of 1,270,000 shares and generating new funds of £117,500 for the Company.

On 18 May the Company announced the acquisition of oil and gas exploration licences covering approximately 1,979.13 acres located in the Williston Basin, North Dakota. The consideration of US\$14,411.56 was satisfied through a cash payment. This latest acquisition brings the Company's total acreage holding in the area to 3,951.93 acres.

On 20 May the Group also increased its holding of uranium acreage in Utah to approximately 1,384.22 acres by the successful acquisition of 8 Mining Claims from Ticaboo Minerals, Inc. ('Ticaboo') in Grand County, which cover a total of 165.28 acres. The acquisition of these additional claims brings the Group's total claims to 67 and constitutes the culmination of Highlands' uranium acreage campaign in Grand County, Utah. The fees to acquire 100% of the additional 8 claims is US\$ 16,000 and has been satisfied through a cash payment. Highlands has

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DIRECTORS' REPORT

additionally agreed to provide Ticaboo a production royalty of 2% from the additional 8 Mining claims and a 1% royalty on the previous 33 Mining Claims acquired from Ticaboo.

On 23 May the Group announced a licence agreement with Calfrac Well Services Corp. ('CalFrac'), a leading pressure-pumping provider in the US, in relation to Diversion Technologies, LLC's ('Diversion') proprietary "DT Ultravert" re-fracking technology, in which the Group holds a 75% interest.

CalFrac has licensed DT Ultravert on a shared exclusivity basis for use in connection with its commercial Hydraulic Fracturing operations, activities and services in seven states of the United States of America. The licence agreement has an initial term of two years and will then automatically renew for consecutive one-year periods, unless and until terminated. Additionally, Highlands has the exclusive right to market Nitrogen gas to CalFrac at current market rates for all fracking operations undertaken by CalFrac using DT Ultravert throughout the term of the licence agreement. CalFrac will endeavour to provide certain data to Highlands, which the Company and Diversion may use with a view to the further development of the DT Ultravert re-fracking technology. Highlands and Diversion are also entitled to a 2% royalty based on the revenue received by CalFrac from each fracking operation during the term of the licence agreement which uses the DT Ultravert re-fracking technology.

On 14 June 2016 the Company reached heads of terms with London-listed Opera Investments plc ("Opera") by which Opera will acquire all of the issued share capital of Highlands' subsidiary Highlands Helium Developments Limited, incorporated post year end to acquire the Helios Two helium and natural gas project in Montana, USA. The transaction is conditional upon approval by the Opera shareholders and a number of pre-conditions on which both parties are actively working. The consideration of approximately £4.0 million is to be satisfied by the issue of shares in Opera following which the Company will be approximately a 55% shareholder in Opera. The heads of terms also stipulate that Opera will reimburse the Company all of the professional costs incurred by Highlands on this project, the majority of which occurred post year end as well as any costs of further leases that could be acquired for the project (with any such further leases also being the subject of the proposed disposal).

Directors' Indemnity Provisions

The Group has implemented Directors and Officers Liability Indemnity insurance.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Further details are given in Note 2.3 to the Financial Statements. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

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DIRECTORS' REPORT

Supplier payment policy

It is the Group's policy to make payments to creditors in accordance with individually agreed terms, generally within 30 days either of the invoice date or from the end of the month the invoice was raised. Using the method set out in the Companies Act, the ratio for the Group of trade creditors at the period end to total costs was 7 days.

Donations

The Company made no political donations during the period.

ON BEHALF OF THE BOARD

Melvyn Davies

Director

14 June 2016

**HIGHLANDS NATURAL RESOURCES PLC
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016**

Independent Auditor's Report to the Members of Highlands Natural Resources plc

We have audited the financial statements of Highlands Natural Resources plc for the period ended 31 March 2016 set out on pages 38 to 61. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the group and the parent company as at 31 March 2016 and of the group's loss for the period then ended; and

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- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements, and the part of the Directors' Remuneration Report to be audited, are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Gaskell
(Senior Statutory Auditor)

For and on behalf of Saffery Champness
Chartered Accountants
Statutory Auditors
71 Queen Victoria Street
London
EC4V 4BE

14 June 2016

HIGHLANDS NATURAL RESOURCES PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

	Notes	Period ended 31 March 2016 £
Revenue		-
Administrative expenses		(1,818,049)
Operating loss	5	<u>(1,818,049)</u>
Finance income		1,378
Loss on ordinary activities before taxation		<u>(1,816,671)</u>
Taxation on loss on ordinary activities	8	-
Loss for the period		<u>(1,816,671)</u>
Foreign exchange adjustment on consolidation		(10,581)
Total comprehensive loss for the period attributable to the equity holders		<u>(1,827,252)</u>
Loss per share (basic and diluted) attributable to the equity holders (pence)	9	<u>(10.88) p</u>

The accompanying notes on pages 38 to 61 form part of these financial statements

HIGHLANDS NATURAL RESOURCES PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2016

	Notes	At 31 March 2016 £
NON-CURRENT ASSETS		
Intangible assets	10	682,530
		682,530
CURRENT ASSETS		
Trade and other receivables	12	47,316
Cash and cash equivalents	13	717,427
		764,743
TOTAL ASSETS		1,447,273
CURRENT LIABILITIES		
Trade and other payables	14	53,348
TOTAL LIABILITIES		53,348
NET ASSETS		1,393,925
EQUITY		
Share capital	16	1,491,175
Share premium account	17	643,575
Share based payments reserve	18	1,077,582
Foreign currency translation reserve	19	(10,581)
Retained loss		(1,807,826)
TOTAL EQUITY		1,393,925

The financial statements were approved by the Board of Directors on 14 June 2016 and signed on their behalf by:

Robert Price

Melvyn Davies

The accompanying notes on pages 38 to 61 form part of these financial statements

HIGHLANDS NATURAL RESOURCES PLC
COMPANY STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2016

	Notes	At 31 March 2016 £
NON-CURRENT ASSETS		
Intangible assets	10	647,625
Investment in subsidiary	11	66
Loan to group undertaking	11	238,566
		886,247
CURRENT ASSETS		
Trade and other receivables	12	47,316
Cash and cash equivalents	13	502,428
		549,744
TOTAL ASSETS		1,435,991
CURRENT LIABILITIES		
Trade and other payables	14	42,000
TOTAL LIABILITIES		42,000
NET ASSETS		1,393,991
EQUITY		
Share capital	16	1,491,175
Share premium account	17	643,575
Share based payments reserve	18	1,077,582
Retained loss		(1,818,341)
TOTAL EQUITY		1,393,991

The financial statements were approved by the Board of Directors on 14 June 2016 and signed on their behalf by:

Robert Price

Melvyn Davies

The accompanying notes on pages 38 to 61 form part of these financial statements

HIGHLANDS NATURAL RESOURCES PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

	Share capital	Share Premium account	Share based payment reserve	Foreign Currency Translation Reserve	Retained loss	Total
	£	£	£	£	£	£
At incorporation	-	-	-	-	-	-
Comprehensive income for the period						
Loss for the period	-	-	-	-	(1,816,671)	(1,816,671)
Other comprehensive income	-	-	-	-	-	-
Translation adjustment	-	-	-	(10,581)	-	(10,581)
Total comprehensive loss for the period attributable to the equity holders	-	-	-	(10,581)	(1,816,671)	(1,827,252)
Issue of warrants	-	-	1,086,427	-	-	1,086,427
Exercise of warrants	-	-	(8,845)	-	8,845	-
Shares issued in the period	1,491,175	681,825	-	-	-	2,173,000
Cost relating to share issues	-	(38,250)	-	-	-	(38,250)
At 31 March 2016	1,491,175	643,575	1,077,582	(10,581)	(1,807,826)	1,393,925

The accompanying notes on pages 38 to 61 form part of these financial statements

HIGHLANDS NATURAL RESOURCES PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

	Share capital	Share Premium account	Share based payment reserve	Retained loss	Total
	£	£	£	£	£
At incorporation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Comprehensive income for the period					
Loss for the period	-	-	-	(1,827,186)	(1,827,186)
Other comprehensive income	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive loss for the period attributable to the equity holders	-	-	-	(1,827,186)	(1,827,186)
Issue of warrants	-	-	1,086,427	-	1,086,427
Exercise of warrants	-	-	(8,845)	8,845	-
Shares issued in the period	1,491,175	681,825	-	-	2,173,000
Cost relating to share issues	-	(38,250)	-	-	(38,250)
	<u>1,491,175</u>	<u>643,575</u>	<u>1,077,582</u>	<u>(1,818,341)</u>	<u>1,393,991</u>
At 31 March 2016	1,491,175	643,575	1,077,582	(1,818,341)	1,393,991

The accompanying notes on pages 38 to 61 form part of these financial statements

HIGHLANDS NATURAL RESOURCES PLC
CASHFLOW STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

	Group 2016 £	Company 2016 £
Cash flow from operating activities		
Loss for the period	(1,816,671)	(1,827,186)
Adjustments for:		
Depreciation and amortisation charges	59,915	58,875
Charge for the period in respect of Share-based payments	636,427	636,427
Cost settled by issue of shares	6,500	6,500
Provision against loan to subsidiary	-	569,216
Operating cashflow before working capital movements	<u>(1,113,829)</u>	<u>(556,168)</u>
Increase in trade and other receivables	(47,316)	(47,316)
Increase in trade and other payables	53,348	42,000
Net cash outflow from operating activities	<u>(1,107,797)</u>	<u>(561,484)</u>
Cashflows from investing activities		
Purchase of Intangible and mineral rights	(742,445)	(706,500)
Less: settled by issue of share based payments	706,500	706,500
Investment in subsidiary	-	(807,838)
Net cash absorbed by investing activities	<u>(35,945)</u>	<u>(807,838)</u>
Cashflows from financing activities		
Net proceeds from issue of shares	1,871,750	1,871,750
Net cash generated by financing activities	<u>1,871,750</u>	<u>1,871,750</u>
Net increase in cash and cash equivalents		
As above	728,008	502,428
Foreign exchange	(10,581)	-
Cash and cash equivalents at the end of the period	<u>717,427</u>	<u>502,428</u>

The accompanying notes on pages 38 to 61 form part of these financial statements

**HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016**

1 GENERAL INFORMATION

1.1 Group

Highlands Natural Resources plc (“Highlands Natural Resources” or “the Company”) and its subsidiary (together “the Group”) are primarily involved in the oil and gas sector. Highlands Natural Resources plc, a public limited company incorporated and domiciled in England and Wales, is the Group’s ultimate parent company. The Company was incorporated on 13 November 2014 with Company Registration Number 09309241 and its registered office and principal place of business is 9 Limes Road, Beckenham, Kent BR3 6NS.

1.2 Company income statement

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The loss for the financial period dealt with in the accounts of the Company, including provision against the loans to and investment in subsidiary companies, amounted to £1,827,186.

2. PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The Consolidated Financial Statements have been prepared under the historical cost convention. The principal accounting policies are set out below and have, unless otherwise stated, been applied consistently for all periods presented in these Consolidated Financial Statements. The financial statements are prepared in pounds sterling and presented to the nearest pound.

2.2 Basis of consolidation

The Group financial information incorporates the financial information of the Company and its controlled subsidiary undertakings, drawn up to 31 March 2016. Control is achieved where the Company:

- has power of the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

Where necessary, adjustments are made to the financial information of subsidiaries to bring accounting policies into line with those used for reporting the operations of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2.3 Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future.

The Group had a net cash outflow from operating activities for the period of £1,108,000 and at 31 March 2016 had cash balances of £717,000. In April and May 2016, the Group raised £519,000 (before costs) through a share placement plus £112,000 from the exercise of warrants, helping to increase the cash position at 31 May 2016 to £996,000.

The Directors have reviewed the working capital requirements of the Group for the next 12 months and are confident that these can be met. The Directors have a reasonable expectation that further finances will become available during the course of the year through royalties and exploitation income relating to either new or existing agreements and the issue of further shares either through investor placings or the exercise of warrants. The Directors note that whilst there is an uncertainty as to the exact timing and source of these funds, and that the failure to receive sufficient funding from these sources would cast doubt on the Group's ability to continue as a going concern, nonetheless the Directors are cautiously confident that such funds can be obtained.

The Directors consider that the continued adoption of the going concern basis is appropriate and the accounts do not reflect any adjustments that would be required if they were to be prepared on any other basis.

2.4 Business combinations

There were no Business Combinations as defined by IFRS 3 (revised) during the period.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

In arriving at the cost of acquisition, the fair value of the shares issued by the Company is taken to be the mid-market price of those shares at the date of issue. Where this figure exceeds the nominal value of the shares, the excess amount is treated as an addition to the share premium account.

HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

2.5 Revenue recognition

The Group has received no revenue during the period.

The Group's future income could consist of licence fees, milestone and option payments. Income is measured at the fair value of the consideration received or receivable.

Licence fees, option and milestone payments are recognised in full on the date that they are contractually receivable in those circumstances where:

- the amounts are not refundable;
- the licensee has unrestricted rights to exploit the technology within the terms set by the licence; and
- the Group has no further contractual duty to perform any future services.

Where such fees or receipts require future performance or financial commitments on behalf of the Group, the revenue is recognised pro rata to the services or commitments being performed. Funds received that have not been recognised are treated as deferred revenue and recognised in trade and other payables.

Revenues from work or other research and testing carried out for third parties are recognised when the work to which they relate has been performed.

2.6 Foreign currency translation

Highlands Natural Resources' consolidated financial statements are presented in Sterling (£), which is also the functional currency of the parent company. The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is also recognised directly in equity. When a gain or loss on a non-monetary item is recognised in the income statement, any exchange component of that gain or loss is also recognised in the income statement.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Sterling using exchange

HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in equity. Cumulative translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.7 Defined contribution pension funds

From time to time the Group may pay contributions related to salary to certain UK employees' individual pension schemes. The pension cost charged against profits represents the amount of the contributions payable to the schemes in respect of the accounting period. No separate provision is made in respect of non-UK employees.

2.8 Investment in subsidiary

Investment in subsidiary comprises shares in the subsidiary stated at cost less provisions for impairment.

2.9 Financial instruments

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

Financial assets can be divided into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the instruments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Derecognition of financial instruments occurs when the rights to receive cash flows from investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Trade receivables

Trade receivables are measured at initial recognition at fair value plus, if appropriate, directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount

HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

and the present value of estimated future cash flows discounted at an effective interest rate computed at initial recognition.

Loans receivable

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group or Company provides money directly to a debtor with no intention of trading the receivables. Loans receivable are measured at initial recognition at fair value plus, if appropriate, directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. A financial liability is a contractual obligation to either deliver cash or another financial asset to another entity or to exchange a financial asset or financial liability with another entity, including obligations which may be settled by the Group using its equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities

At initial recognition, financial liabilities are measured at their fair value plus, if appropriate, any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, all financial liabilities are measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received net of direct issue costs.

2.10 Property, plant and equipment

The Group holds no property or other plant and equipment.

HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

When the Group acquires any plant and equipment it will be stated in the accounts at its cost of acquisition less a provision for depreciation.

Depreciation will be charged to write off the cost less estimated residual values of plant and equipment on a straight line basis over their estimated useful lives. Estimated useful lives and residual values are reviewed each year and amended if necessary.

2.11 Intangible assets

Patent rights

Intangible assets include acquired intellectual property in the form of patent rights used in oil and gas operations. These assets are stated at cost less amortisation.

Intellectual property rights acquired during the period are capitalised on the basis of the fair value of equity instruments issued to acquire the specific rights.

Costs associated with prosecuting and maintaining these intellectual property rights are treated as an expense in the period in which they are incurred.

Amortisation is applied to write off the cost less residual value of the intangible assets on a straight line basis over their estimated useful life. The principal rate used is 10% per annum.

Lease & Mining rights

Leases and claims relating to mineral mining rights are stated at cost less amortisation.

The rights acquired during the period are capitalised on the basis of the costs incurred to acquire the specific rights. Any costs associated with prosecuting or maintaining these rights are treated as an expense in the period in which they are incurred.

Amortisation is applied to write off the cost less residual value of the intangible assets on a straight line basis over their estimated useful life. The principal rate used is 20% per annum.

2.12 Impairment testing of intangible assets and property, plant and equipment

At each balance sheet date, the Group assesses whether there is any indication that the carrying value of any asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In the case of goodwill and any intangible asset with either an indefinite useful life or which is not yet ready for use, the Group tests for impairment at each balance sheet date.

HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life, or those not yet available for use, are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

2.13 Operating leases

Leases where substantially all the risks and rewards of ownership remain with the lessor are accounted for as operating leases and are accounted for on a straight line basis over the term of the lease and charged to the income statement.

2.14 Equity

Share capital is determined using the nominal value of shares that have been issued.

The Share premium account includes any premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from the Share premium account, net of any related income tax benefits.

Equity-settled share-based payments are credited to a Share-based payment reserve as a component of equity until related options or warrants are exercised.

Retained loss includes all current and prior period results as disclosed in the income statement.

2.15 Share-based payments

The Group has issued warrants to the initial investors and certain counterparties and advisers.

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value so determined is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of

HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using a Black Scholes pricing model. The key assumptions used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

2.16 Taxation

Tax currently payable is based on taxable profit for the period. Taxable profit differs from 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 is recognised 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 initial recognition of 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 associates, 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 is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current 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.

2.17 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the entity's accounting policies, management makes estimates and assumptions that have an effect on the amounts recognised in the financial information. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are those relating to:

- the ability of the Group to operate as a "going concern";
- the carrying value of the Group's investment in intellectual property and patent rights;
- the estimation of the fair value of the shares and warrants issued during the period;
- the carrying value of the investment in the subsidiary.

Going concern

As explained in Note 2.3 above, the financial information is drawn up on the going concern basis which assumes that the Group will be able to access sufficient funds to continue to operate for the foreseeable future. The key assumptions are around the forecast of working capital required for, primarily, the development and commercialisation of the Group's intellectual property and patent rights and the methods of funding those requirements. The Directors have reviewed the forecasts for the coming 18 months and consider that the Group's existing working capital and sources of finance are adequate for its purposes. If the financial information was to be drawn up on the basis that this assumption was not valid then there could be material changes to the carrying values of both assets and liabilities.

Carrying value of intangible assets

During the period the Company acquired certain patent rights as well as lease and mining rights, as set out in Note 10 below. The key assumptions concerning the carrying value, or otherwise, for the intangible assets relate to the continuing progress of the Group's exploitation programmes, which are subject to risks common to all oil and gas businesses. These risks include the impact of competition in the specific areas of intellectual property, the potential failure of the projects in development or testing stages and the possible inability to progress projects due to regulatory, manufacturing or intellectual property issues or the lack of available funds or other resources. Furthermore, the crystallisation of any of these risks could have a significant impact on the assessment of the value of the intangible assets. The carrying value is stated at cost incurred, including the fair value of the shares and warrants issued in respect of the acquisition, see below.

Estimation of fair value of warrants issued in the period

The fair value of the warrants issued during the period have been calculated using a Black Scholes model which requires a number of assumptions and inputs, see Note 18 below.

HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

Carrying value of investment in subsidiary and loan to group undertaking

The Company has made loans to the subsidiary company which is not yet profitable or cash generative. The Company has made provision against the loans made to the subsidiary equivalent to the losses to date suffered by the subsidiary. No provision has been made against the investment in share capital or possible future costs or losses of the subsidiary, see Note 11 below.

2.18 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, interpretations and amendments to existing standards have been published by the IASB but are yet to be endorsed by the EU or are not effective for the period presented in the financial information and the Group has decided not to early adopt them:

Standard	Effective date, annual period beginning on or after
Annual Improvements 2012-2014 cycle	1 January 2016
IFRS 11 (amendments) <i>Accounting for acquisitions of interests in joint operations</i>	1 January 2016
IFRS 14 <i>Regulatory Deferral accounts</i>	1 January 2016*
Amendments to IFRS 10, IFRS 12 & IAS 28: <i>Investment entities: Applying the consolidation exception</i>	1 January 2016
IAS 16 <i>Property, Plant & Equipment</i> and IAS 38 – <i>Intangible assets</i> (amendments)	1 January 2016
IAS 16 <i>Property, Plant & Equipment</i> and IAS 41 – <i>Bearer Plants</i> (amendments)	1 January 2016
IAS 1 (amendments) <i>Disclosure initiative</i>	1 January 2016
IAS 27 (amendments) <i>Equity Method in Separate Financial Statements</i>	1 January 2016
Amendment to IAS 12 – <i>Recognition of Deferred Tax for unrealised losses</i>	1 January 2017
Amendment to IAS 7 – <i>Disclosure Initiative</i>	1 January 2017
IFRS 9 <i>Financial instruments: Classification and Measurement</i>	1 January 2018
IFRS 15 <i>Revenue from contracts with Customers</i> including amendments to IFRS 15: <i>Effective date of IFRS 15</i>	1 January 2018
Clarification to IFRS 15 <i>Revenue from contracts with customers</i>	1 January 2018
IFRS 16 <i>Leases</i>	1 January 2019

* The European Commission has decided not to launch the endorsement process of this interim standard but to wait for the final standard.

The Directors are evaluating the impact that these standards will have on the financial statements of the Group.

HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

2.19 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Robert Price.

All operations and information are reviewed together so that at present there is only one reportable operating segment.

3. REVENUE

There was no revenue generated in the period.

4. SEGMENT REPORTING

In the opinion of the Directors, during the period ended 31 March 2016 the Group only operated in the single business segment of oil and gas development.

5. OPERATING LOSS	2016
	£
This is stated after crediting: and after charging:	
Depreciation of property, plant and equipment	-
Amortisation of intangibles	59,915
Share-based payments charge	636,427
Auditors' remuneration	
- audit of parent company	25,000
- non-audit services	31,250
Directors' remuneration	617,357*

* of which £510,460 is included in respect of the share-based payments charge for the year

HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 13 NOVEMBER 2014 TO 31 MARCH 2016

6. DIRECTORS AND STAFF COSTS **2016**
£

There were no staff during the period except the Directors and the average number of employees, including Directors, during the period was 2. Management remuneration paid and other benefits supplied to the Directors during the period was as follows:

Salary	60,969
Social security costs	-
Healthcare costs	20,928
Pension contribution to defined contribution scheme (1 Director)	25,000
	106,897
Charge in respect of share-based payments	510,460
	617,357

The amounts set out above include remuneration to the highest paid director as follows:

Salary	60,969
Social security costs	-
Healthcare costs	20,928
	81,897
Charge in respect of share-based payments	489,250
	571,147

7. FINANCE INCOME

The finance income comprises:

Bank interest receivable	1,378
	1,378

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8. TAXATION	2016
	£
The charge/credit for the period is made up as follows:	
Corporate Taxation on the results for the period	
UK	-
Non-UK	-
	<hr/>
Taxation charge/credit for the period	<hr/> -

A reconciliation of the tax charge/credit appearing in the income statement to the tax credit that would result from applying the standard rate of tax to the results for the period is:

Loss per accounts	<u>(1,816,671)</u>
Tax credit at the standard rate of corporation tax in the UK (20%):	(363,334)
Impact of costs disallowable for tax purposes	134,294
Deferred tax in respect of temporary differences	-
Impact of unrelieved tax losses carried forward	229,040
	<hr/>
Taxation credit for the period	<hr/> -

Estimated tax losses of £1,145,000 are available for relief against future profits.

The deferred tax asset not provided for in the accounts based on the estimated tax losses and the treatment of the equity settled share based payments, net of any other temporary differences, is approximately £117,000. The Directors have not considered any potential deferred tax asset in respect of losses in the US due to the uncertainty over the applicable future tax rate.

9. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the financial period after taxation of £1,816,671 and on the weighted average of 16,690,632 ordinary shares in issue during the period.

The options outstanding at 31 March 2016 are considered to be non-dilutive in that their conversion into ordinary shares would not increase the net loss per share. Consequently, there is no diluted loss per share to report for the period.

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10. INTANGIBLE ASSETS

Group	Patent Rights	Leases & Mining Rights	Total
	£	£	£
Cost			
At 13 November 2014	-	-	-
Additions	706,500	35,945	742,445
At 31 March 2016	<u>706,500</u>	<u>35,945</u>	<u>742,445</u>
Amortisation			
At 13 November 2014	-	-	-
Charge for the period	58,875	1,040	59,915
At 31 March 2016	<u>58,875</u>	<u>1,040</u>	<u>59,915</u>
Net book value			
At 13 November 2014	-	-	-
At 31 March 2016	<u>647,625</u>	<u>34,905</u>	<u>682,530</u>
Company			
	Patent Rights		
	£		
Cost			
At 13 November 2014	-		
Additions	706,500		
At 31 March 2016	<u>706,500</u>		
Amortisation			
At 13 November 2014	-		
Charge for the period	58,875		
At 31 March 2016	<u>58,875</u>		
Net book value			
At 13 November 2014	-		
At March 2016	<u>647,625</u>		

The patent rights included above have finite useful lives estimated to be of 10 years from date of initial acquisition, over which period the assets are amortised.

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The Group tests for possible impairment of definite-lived intangible assets on a regular basis. If indicators of possible impairment exist, such as a change of use of the asset, a reduction in operating cash flow or a change in technology, the Group compares the discounted cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the discounted cash flow amount, an impairment charge is recorded for the amount necessary to reduce the carrying value of the asset to fair value. Fair value for the purpose of the impairment tests is determined based on current market value or discounted future cash flows. In determining the fair value, certain assumptions are made concerning, for example, estimated cash flow and growth of the Group's operations.

**11. INVESTMENT IN SUBSIDIARY AND
LOAN TO GROUP UNDERTAKING**

Company	2016 £
Investment in subsidiary	<u>66</u>

Subsidiary Company:

The Company has one Subsidiary whose principal activity is oil and gas development. All Subsidiary companies are consolidated in the Group's financial statements.

Name	Place of incorporation and operation	Proportion of ownership interest	Loss for the period	Aggregate capital and reserves at 31 March 2016
Highlands Natural Resources Corporation	USA	100%	£554,629	£(569,220)

During the period the Company established and made investment in its USA based operating subsidiary Highlands Natural Resources Corporation. As all group entities are still in the exploratory stages and not yet generating profits the Company has made an impairment provision against the loans to the subsidiary to the extent that they are deemed to be not recoverable upon demand.

Loan to group undertaking	Loan at cost £	Impairment Provision	Net Total
At 13 November 2014	-	-	-
Additions	807,772	569,216	238,556
At 31 March 2016	<u>807,772</u>	<u>569,216</u>	<u>238,556</u>

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12. TRADE & OTHER RECEIVABLES	Group	Company
	£	£
Trade receivables	-	-
Other receivables	41,634	41,634
Prepayments	5,682	5,682
	<u>47,316</u>	<u>47,316</u>

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Fair values have been calculated by discounting cash flows at prevailing interest rates. See also note 23.

13. CASH & CASH EQUIVALENTS	Group	Company
	£	£
Cash at bank	417,427	202,428
Cash held at brokers	300,000	300,000
	<u>717,427</u>	<u>502,428</u>

Cash at bank comprises of balances held by the Group in current bank accounts. The carrying amount of these assets approximates to their fair value. The cash held at brokers is held in an instantly accessible account.

14. TRADE & OTHER PAYABLES	Group	Company
	£	£
Trade payables	-	-
Accruals and other payables	53,348	42,000
	<u>53,348</u>	<u>42,000</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and continuing costs. The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Fair values have been calculated by discounting cash flows at prevailing interest rates. See also note 23.

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15. DEFERRED TAXATION

	2016
	£
Deferred tax asset:	
In respect of available tax losses in the UK	117,000
	<hr/>
Deferred tax asset	117,000
Less: provision against asset	(117,000)
	<hr/>
Asset	<hr/> -

No deferred tax asset has been recognised by the Group due to the uncertainty of generating sufficient future profits and tax liability against which to offset the tax losses. The Directors have not considered any potential deferred tax asset in respect of losses in the US due to the uncertainty over the applicable future tax rate.

16. SHARE CAPITAL

	2016
	£
Allotted called up and fully paid:	
29,823,500 ordinary 5p shares	<hr/> 1,491,175

The Company has only one class of share. All ordinary shares have equal voting rights and rank pari passu for the distribution of dividends and repayment of capital.

	Number	Par value of shares issued £
Shares issued on incorporation:		
Issue of 50,000 £1 ordinary shares at par on incorporation	50,000	50,000
Increase in number on conversion to 5p ordinary shares	<hr/> 950,000	<hr/> -
Revised number upon incorporation	1,000,000	50,000
Shares issued in the period		
18 March 2015 - issue of shares for cash at 5p per share	19,000,000	950,000
21 May 2015 - issue of shares for intellectual property and patent rights at 13.5p	1,900,000	95,000
21 May 2015 – issue of shares to settle adviser fees	98,500	4,925
3 February 2016 – issue of shares for cash at 12p per share	6,375,000	318,750
February and March 2016 – various issues of shares on exercise of warrants at 10p per share	<hr/> 1,450,000	<hr/> 72,500
Total issued in the period	<hr/> 29,823,500	<hr/> 1,491,175
Number of shares in issue at 31 March 2016	<hr/> 29,823,500	<hr/> 1,491,175

At 31 March 2016 there were warrants outstanding over 61,600,000 unissued ordinary shares.

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Details of the warrants outstanding are as follows:

Issued	Exercisable from	Exercisable until	Number	Exercise price (p)
25 March 2015	Any time until	24 March 2020	28,000,000	5
25 March 2015	Any time until	24 March 2018	2,050,000	10
27 May 2015	Any time until	29 May 2018	30,000,000	25
27 May 2015	Any time until	29 May 2020	50,000	10
3 February 2016	3 August 2016	3 February 2019	1,500,000	25
			<u>61,600,000</u>	

The Directors held the following warrants at the beginning and end of the period:

Director	At Formation	Granted in the period	At 31 March 2016	Exercise price	Earliest date of exercise	Latest date of exercise
				Pence		
R B Price	-	23,750,000	23,750,000	5p	25/03/15	24/03/20
J M Davies	-	1,000,000	1,000,000	5p	25/03/15	24/03/20
		100,000	100,000	10p	25/03/15	24/03/18
Total	<u>-</u>	<u>24,850,000</u>	<u>24,850,000</u>			

The market price of the shares at the period end was 15.125p per share.

During the period, the minimum and maximum prices were 5p and 18p per share respectively.

17. Share premium account

	2016
	£
On shares issued during the period	
13 November 2014 – issue of shares at par on incorporation	
18 March 2015 – issue of shares for equity placing	
21 May 2015 – issue of shares for intellectual property and patent rights	161,500
21 May 2015 – issue of shares to settle adviser fees	1,575
3 February 2016 – issue of shares for equity placing	446,250
February and March 2016 – on various exercises of warrants	72,500
	<u>681,825</u>
Less: costs relating to share issues	<u>(38,250)</u>
At 31 March 2016	<u>643,575</u>

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18. EQUITY-SETTLED SHARE-BASED PAYMENTS

The Company has issued warrants to investors, counterparties and advisers during the period. The details of the exercise price and exercise period are given above.

Details of the warrants outstanding at the period end are as follows:

Warrants	2016 Number	2016 Weighted average exercise price – pence
Outstanding at the beginning of the period	-	-
Granted during the period	63,050,000	15.27p
Lapsed during the period	-	-
Exercised during the period	(1,450,000)	10.00p
Outstanding at the period end	<u>61,600,000</u>	15.40p
Exercisable at the period end	<u>60,100,000</u>	15.16p

The warrants were exercised on a number of dates between 8 February and 11 March 2016 during which time the share price varied between 13.625p and 15.625p.

The warrants outstanding at the period end have a weighted average remaining contractual life of 3.0 years. The exercise price of the warrants outstanding at the period end range from 5p to 25p per share. Full details of the exercise price and potential exercise dates are given in Note 16 above.

The fair values of warrants granted during the period were calculated using a Black Scholes pricing model and the inputs into the model were as follows:

Share price at date of issue of warrants	5 – 14.5p
Exercise price	5 – 25p
Expected volatility	56 – 57%
Risk free rate	0.203 – 1.11%
Expected dividend yield	Nil

The Group recognised total charges of £636,427 related to equity-settled share-based payment transactions during the period.

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19. FOREIGN CURRENCY TRANSLATION RESERVE

	Period ended 31 March 2016
	£
Balance at start of period	-
Movement in the year	(10,581)
At 31 March 2016	<u>(10,581)</u>

20. CAPITAL COMMITMENTS

There were no capital commitments at 31 March 2016.

21. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 March 2016.

22. COMMITMENTS UNDER OPERATING LEASES

There were no commitments under operating leases at 31 March 2016.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's financial instruments comprise primarily cash and various items such as trade debtors and trade creditors which arise directly from its operations. The main purpose of these financial instruments is to provide working capital for the Group's operations. The Group does not utilise complex financial instruments or hedging mechanisms in respect of its non-sterling operations.

Financial assets by category

The categories of financial assets (as defined by *International Accounting Standard 39: Financial Instruments: Recognition and Measurement – IAS39*) included in the balance sheet and the heading in which they are included are as follows:

	Group 2016	Company 2016
	£	£
Non current assets		
Loan to group undertaking	-	238,556
Current assets		
Trade and other receivables	47,316	47,316
Cash and cash equivalents	717,427	502,428
	<u>764,743</u>	<u>788,300</u>

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The loan to group undertaking has no fixed repayment date although it is not repayable within twelve months and its future repayment will depend upon the financial performance of the subsidiary.

All other amounts are short term and none are past due at the reporting date.

Financial liabilities by category

The categories of financial liabilities (as defined by IAS39) included in the balance sheet and the heading in which they are included are as follows:

	Group 2016 £	Company 2016 £
Current liabilities		
Trade and other payables	53,348	42,000
	<hr/>	<hr/>
Categorised as financial liabilities measured at amortised cost	<u>53,348</u>	<u>42,000</u>

All amounts are short term and payable in 0 to 3 months.

Credit risk

The maximum exposure to credit risk at the reporting date by class of financial asset was:

	Group 2016 £	Company 2016 £
Bank balances and receivables	<u>759,061</u>	<u>544,062</u>

Capital management

The Group considers its capital to be equal to the sum of its total equity. The Group monitors its capital using a number of key performance indicators including cash flow projections, working capital ratios, the cost to achieve development milestones and potential revenue from partnerships and ongoing licensing activities. The Group's objective when managing its capital is to ensure it obtains sufficient funding for continuing as a going concern. The Group funds its capital requirements through the issue of new shares to investors.

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Interest rate risk

The nature of the Group's activities and the basis of funding are such that the Group has significant liquid resources. The Group uses these resources to meet the cost of future development activities. Consequently, it seeks to minimise risk in the holding of its bank deposits while maintaining a small rate of interest during this period of very low interest rates. The Group is not financially dependent on the income earned on these resources and therefore the risk of interest rate fluctuations is not significant to the business and the Directors have not performed a detailed sensitivity analysis. Nonetheless, the Directors take steps to secure rates of interest which generate a return for the Group by depositing sums which are not required to meet the immediate needs of the Group in interest-bearing deposits. Other balances are held in interest-bearing, instant access accounts. All deposits are placed with main clearing banks to restrict both credit risk and liquidity risk. The deposits are placed for the short term, between one and three months, to provide flexibility and access to the funds and to avoid locking into potentially unattractive interest rates.

Credit and liquidity risk

Credit risk is managed on a Group basis. Funds are deposited with financial institutions with a credit rating equivalent to, or above, the main UK clearing banks. The Group's liquid resources are invested having regard to the timing of payments to be made in the ordinary course of the Group's activities. All financial liabilities are payable in the short term (between 0 and 3 months) and the Group maintains adequate bank balances to meet those liabilities as they fall due.

Currency risk

The Group operates in a global market with income possibly arising in a number of different currencies, principally in Sterling or US Dollars. The majority of the operating costs are incurred in Sterling with the rest predominantly in US Dollars. The Group does not hedge potential future income or costs, since the existence, quantum and timing of such transactions cannot be accurately predicted.

Financial assets and liabilities denominated in US Dollars and translated into Sterling at the closing rate were:

	Group 2016 £	Company 2016 £
Financial assets	214,999	238,556
Financial liabilities	11,348	-
Net financial assets	<u>203,651</u>	<u>238,556</u>

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The following table illustrates the sensitivity of the net result for the period and the reported financial assets of the Group in regards to the exchange rate for Sterling:US Dollar

	2016		
	As reported	if Sterling	if Sterling
		rose 20%	fell 20%
	£	£	£
Group result for the period	(1,816,671)	1,767,444	1,865,675
US Dollar denominated net financial assets	569,216	474,347	683,079
Total equity at 31 March 2016	1,393,925	1,350,30	1,441,643

24. RELATED PARTY TRANSACTIONS

Between the date of incorporation and 31 March 2016, the Company entered into the following related party transactions:

As part of the formation and initial equity placing of the Company, 12,200,000 Ordinary Shares of 5p each were subscribed for and issued to the following Directors:

	Number	Cash subscribed (£ per share)
R B Price	12,000,000	0.05
J M Davies	200,000	0.05

On 18 March 2015, the Company constituted Founder Warrants on the terms of an instrument under which the Company issued Warrants in respect of 23,750,000 shares to R B Price and in respect of 1,000,000 shares to J M Davies. The Warrants entitle the holders to subscribe for 23,750,000 and 1,000,000 Ordinary Shares respectively at 5 pence per Ordinary Share. The Warrants are exercisable at any time up to and including the 25 March 2020.

R B Price (a Director of the Company) and P Mendell (a member of the Advisory Board) are also directors of and holders of 37.5% each of the issued share capital of Diversion Technologies LLC ("Diversion"). During the period, the Group acquired a 75% stake in intellectual property and patent rights owned by Diversion for £706,500 which the Group paid by the issue of 1,900,000 Ordinary Shares to Diversion along with the granting to Diversion of warrants over a further 30,000,000 Ordinary Shares exercisable within three years at an exercise price of 25p per share. At the time of the acquisition the shares in the Company were trading at 13.5p per share.

25. EVENTS AFTER THE REPORTING PERIOD

On 26 April, agreement was reached to place a further 2,883,849 new ordinary shares at a price of 18p per share, raising approximately £519,000 before costs. In addition, since the period end further warrants were exercised by the holders resulting in the issue of 1,270,000 shares and generating new funds of £117,500 for the Company. These transactions increased the issued share capital to 33,977,349 ordinary 5p shares.

On 14 June 2016, the Company reached heads of terms with London-listed Opera Investments plc (“Opera”) by which Opera will acquire all of the issued share capital of Highlands’ subsidiary Highlands Helium Developments Limited, incorporated post year end to acquire the Helios Two helium and natural gas project in Montana, USA. The transaction is conditional upon approval by the Opera shareholders and a number of pre-conditions on which both parties are actively working. The consideration of approximately £4.0 million is to be satisfied by the issue of shares in Opera following which the Company will be approximately a 55% shareholder in Opera. The heads of terms also stipulate that Opera will reimburse the Company all of the professional costs incurred by Highlands on this project, the majority of which occurred post year end as well as any costs of further leases that could be acquired for the project (with any such further leases also being the subject of the proposed disposal).

26. CONTROL

In the opinion of the Directors there is no single ultimate controlling party.