24 July 2018

Highlands Natural Resources plc (‘Highlands’ or the ‘Company’)
Final Results and Notice of AGM

Highlands, the London-listed natural resources company, is pleased to provide its Final Results for the period ended 31 March 2018.

Full Year Highlights

- Transformation into a revenue generative company with reduced cost base following the completion of two wells at the East Denver Niobrara Project
- £2.9 million of income delivered during four months up to 31 March 2018 from just two wells (2017: Nil) which sit in the top 3% of all horizontal Niobrara wells in Colorado
- Strong long-term relationships developed with top industry firms such as Halliburton and True Oil across three divisions:
    - Shale production and development – Colorado
    - Enhanced Oil Recovery – DT Ultravert and associated gasses
    - Helium Exploration
- DT Ultravert technology proven to prevent ‘well bashing’ in horizontal and vertical wells and to enhance well productivity
- Increased Helios Two Project acreage up to 220,000 acres in southeast Montana which are prospective for natural gas and helium

Post Period End Highlights

- $5.4 million cash secured through deal to de-risk East Denver
- Six more wells drilled and being developed with full financing from partners
- Highlands now has a 7.5% carried interest in first eight wells to produce at the project with additional upside potential to own 7.5% interest in up to 24 wells at no extra cost
- Acquisition of the West Denver project – potential to drill at least 48 wells at the location
- Galvanising reputation as an innovator in the Enhanced Oil Recovery space through acquisition of nitrogen and carbon dioxide assets
- Nitrogen purity levels over 99.59% - anticipated to deliver a supply of feedstock for DT Ultravert and to supply third parties

Highlands Chairman Robert Price said, “This has been a transformational period for Highlands and we are very excited to have reported our first revenues.

“This means that we enter the 2018/2019 financial year in a position of strength. We have reduced our overheads by 30%; strengthened our cash position thanks to the $5.4 million we received through the East Denver transaction; and expect to end the year with a carried interest in eight producing wells which, assuming they are as successful as the first two we drilled, will provide us with a 7.5% working interest in up to 5,000 bopd. Even better, our activities at East Denver are entirely repeatable, providing us with a clear path through which we can build our revenue across multiple shale projects.

“We have made strong strides forward in terms of DT Ultravert too. As well as proving the concept through our testing in the period, the Federal jury trial’s decision to award monetary compensation to parties injured by bashing has highlighted the importance of our solution. Even more importantly, we have reacted to feedback regarding the cost of implementing DT Ultravert having acquired our own high purity resource located close to infrastructure in Kansas. We are particularly excited about the opportunity this asset provides to potentially enter a range of new markets, as well as aid the commercialisation of our potentially revolutionary Enhanced Oil Recovery offering.

“I hope shareholders will share in our excitement for the future, which is even brighter now that we have a source of cash flow. We have enough cash to fund our current activities and I forward to providing updates in the coming months as we advance our operations to drive value.”

Chairman’s Statement

We are delighted to report that the Group began generating revenues during the period, a feat which represents a pivotal moment in the history of Highlands.

The Group has continued to develop its three core assets during the year, being:

- the East Denver Niobrara Project (‘East Denver’);
- the Helios Two Project (‘Helios Two’); and
- its patented DT Ultravert (‘DTU’) technology.

The Board has stated its strategy is to establish a portfolio where 80% of the Group’s portfolio should be comprised of production assets capable of providing a stable income, with the balancing 20% of the portfolio providing significant potential upside, albeit at a higher risk, through oil and gas exploration. The East Denver project fits into the 80% category whilst Helios Two and DTU form part of the 20% category. It is the view of the Board that the Company’s portfolio of projects, including those which have commenced since the end of the period, provides numerous opportunities to realise substantial value for shareholders.

Thanks to the achievements during the 2017/2018 financial year and the deal announced on 20 April 2018 we now have a 7.5% carried interest in two producing wells at our East Denver Project, which sit in the top 3% of all horizontal Niobrara wells in Colorado. In addition, our cash flow is set to grow significantly in the coming months as the six additional wells currently under development, and in which we have the same 7.5% carried interest, come online.

Having generated a cash return from East Denver less than a year since raising the first funds to drill two wells at the project, this year has seen us prove the value which can be created through our strategy to acquire, prove up and attract partners for our projects. Having set out to deliver a portfolio weighted approximately 80% towards stable cash-flowing assets, we are delighted to have propelled East Denver into this category in such a short time through a development plan using a mixture of our own and third party funds.

In terms of our future strategy, we have a strong balance sheet with revenue generation and an enhanced partnership network following our activities during the period, which holds us in good stead to repeat this achievement and build our portfolio of working and carried interests in producing wells in the future. We are evaluating assets with similar credentials to East Denver and look forward to updating shareholders when we have identified a project with the potential to add value. The first such new development, “West Denver”, was announced on 4 June 2018.

Furthermore, we have plenty of future upside potential. Through our DTU technology, which has been proven to prevent well-bashing in both vertical and horizontal wells during the period, we have built a reputation across the US oil and gas industry for our expertise in how to enhance well productivity and we have augmented this post period end through some strategic acquisitions. Firstly, we made a nitrogen discovery, which we hope to use as feedstock for DT Ultravert, and in turn, reduce the price point for future customers. Secondly, we have acquired leases in Arizona prospective for carbon dioxide, which can be used to extract in-place oil from pressure depleted wells. These three projects now establish our Enhanced Oil Recovery capabilities which, we believe, will increase our attractiveness and offerings to partners.

At Helios Two, since the date of our Competent Person’s Report in 2017, we have more than tripled our acreage and established what we always believed – helium is present in meaningful quantities. This is a challenging project but, as described below, we have been working to prove commerciality and our hope is that the next stage of our work programme which is to unplug the third stage of our frack at the well, and which we plan to start this summer, will take us forward in that respect.

Shale projects - East Denver and West Denver

Highlands’ East Denver Shale Oil and Gas Project had progressed significantly during this financial period. With two wells producing and generating revenue and six additional wells currently being drilled and completed, Highlands has established a core of revenue streams, enabling the Company to operate on stable financial grounds. With the potential of the project's full 24 well development, as announced on 20 April 2018, the Company has secured its exposure to the upside of the entire production potential of the asset at no further capital cost following its partnership with a highly reputable developer with deep roots in the region.

After extensive analysis and planning, Highlands entered the period with drilling permits for the project in hand. In July 2017, Highlands announced that it had entered a Joint Development Agreement with a leading US private oil and gas investment company Raisa II LLC.

In August 2017, Highlands executed another agreement, the Participation Agreement, with Halliburton, another prominent industry name. Halliburton wanted to participate in the project and agreed to fund 20% of the costs for potentially up to 24 wells.

For Highlands' share of the development costs of the first well, a combined Subscription, Placing and Open Offer was swiftly embarked upon. Uptake was strong, delivering aggregate gross proceeds of £3.25 million. Strong interest from investors enabled us to consider spudding a second at the same time as the first well. Pleasingly, our shareholders were also keen to see us benefit from the economies of scale that can be achieved by drilling two wells in parallel. We quickly raised an additional £1.56 million before costs through a placing of new shares and set to drilling our first two wells, Wildhorse and Powell.

Shortly thereafter, the drilling operation successfully reached a total depth of 18,230 on Powell and 18,483 feet on Wildhorse.

In mid-October, the Company successfully completed the fracking operations for both wells with each well being fractured for 55 times at a total of 110 intervals. Flow back operations commenced as planned at the end of that month.

When we embarked on our operations at East Denver, I highlighted to shareholders that I had the utmost confidence in Highlands' technical team as well as the group of industry-leading consultants who we have assembled around the East Denver Project to deliver the new wells at this project. This confidence was well placed as we took our project from Placing to production in less than six months.

In early December 2017, we announced initial production rates after a flow-back period of approximately one month. The combined oil production rate at that point was 1,569 barrels of oil per day ("BOPD"), while combined gas figures was reported at 1,212 thousand cubic feet of gas per day ("MCFPD"). This delivered a combined initial production rate of 1,771 BOEPD, which was very pleasing, particularly given rising oil prices at that time.

It didn’t take long to reach a combined total production of 100,000 barrels, which was reported in early February, just 64 days after the announcement of initial production. This came at the same time as we received approval to drill additional wells in our northern drilling unit from the Colorado Oil and Gas Conservation Commission. Together with the natural gas processing agreement in April 2018 (post period end), this paved the way for full development of this unit and provided Highlands full exposure to all the revenues associated with its operations at this unit.

We were delighted with the production data we had in hand, which validated the potential across the rest of the field. For a company of Highlands’ size, and consistent with our strategy, we felt that it was important to create a path which built our cash flow while minimising risk. Given that we have a number of other exciting opportunities in our portfolio, the allocation of our human and financial resources to acquire the permits required and to deliver the wells also has to be a strong consideration. Therefore, we embarked on discussions to find a partner with the financial resources to deliver on this opportunity, without further equity dilution for our shareholders and we were delighted to announce, post period end, an Acquisition and Development Agreement with True Oil LLC.

On 20 April 2018, Highlands announced that it had entered into a new third-party financing agreement that effectively replaced the previous terms. Highlands received $5.4 million in upfront cash and a 7.5% carried interest in all current and future wells in exchange for divesting 49% of its 57.5% working interest in existing wells. The new partner, True Oil, has assumed all operational responsibilities of the project and agreed to fund all of Highlands’ share of costs for all future wells.

This agreement delivers a range of benefits to Highlands:

- Increases our cash reserves
- Reduces our capital, overhead and operating expenditure requirements
- Gives us exposure to long term revenue generation through a 7.5% carried interest in at least eight wells and up to 24 horizontal wells in the future
- Provides Highlands with additional time and resources to be used to develop its existing and additional projects.

although, as a consequence, the Group’s level of participation in each individual well has been reduced in order to secure this longer range funding for the whole development.

Highlands remained operator of the project until the first four wells were drilled, at which point True Oil assumed operatorship of the project. Testament to the commitment of our partner, the funds were quickly transferred and operations to deliver the additional six wells, named Buckskin, Citadel, Hagar, Ouray, Thunder and Grizzly, were rapidly commenced. They have all been spudded and drilling has been completed. The wells are being prepared for fracking operations which should begin in August. Therefore, we have entered our 2018/2019 financial year with visibility on our future revenue potential and safe in the knowledge that our cash flows are set to grow significantly in the fourth quarter as drilling and fracking is completed by our proven Highlands team and partners.

Highlands has successfully transformed the East Denver project during the year. We started out with a greenfield project which had strong, yet unproven, potential. Very rapidly, we have delivered a range of steps which are entirely repeatable. We have drilled two productive wells, proving the potential of the project to partners which are able to take on the responsibility and financial burden of fully developing the first unit and therefore removing the dilutionary and operational risk for Highlands shareholders. We have generated a cash return on the project in less than two years and have created some very strong industry relationships which will get stronger as we continue to operate in the region.

We are regularly evaluating assets with similar credentials to East Denver and we were pleased to announce our next Colorado shale development project, "West Denver", on 4 June 2018.

Highlands owns a direct 100% working interest in leases covering 2,721 acres west of Denver where we believe that we can drill at least 48 wells at the location. West Denver, with its surface area largely free of urban development and consolidated into closely grouped parcels, will allow Highlands to move through the permitting and development process efficiently. The streamlined process will enable us to move with greater mobility. The project bears numerous similarities with East Denver. The Niobrara formation shows prominently under the West Denver acreage, but is joined by other attractive shale targets including the Codell formation. West Denver is also ideally situated for pad-based operations similar to the efficient techniques employed by Highlands and its partners at East Denver. Highlands believes that, like East Denver, the opportunity presented by West Denver is suited to third party financing and management will seek to maintain a significant carried interest without dilution or development costs burden for shareholders.

Enhanced Oil Recovery - DT Ultravert, CO_2 and Nitrogen

As operators race to exploit the vast mineral resources of North America, infill drilling is increasingly becoming more commonplace in most active US shale plays. As a result, well bashing is becoming a rising legal issue in the industry. Therefore, we are delighted to have a technology in our portfolio which can prevent this phenomenon, meet growing demand for a solution and, in turn, potentially transform the shale industry.

So, what is well-bashing? Reflecting the growing maturity of the US shale industry and shrinking numbers of untapped reservoirs, new wells, or 'child wells', are now being drilled in close proximity to already producing wells ('parent' wells), at the same time that the existing legacy wells, parent wells, are experiencing a natural reduction in their reservoir pressure.

Well-bashing occurs when the child well is fracked, seriously impacting the performance of both the producing and new well. This is because fracking fluid from the new well naturally migrates towards the low-pressurised parent well as the fractures from the new wells connect with the old ones, often damaging wells beyond repair.

Bashing wells is costly for producers for a number of reasons. First, because when well-bashing occurs public companies must report a revision of recoverable reserves and the revised down reserve figures can affect their credit limits as banks usually tie their lending limits to proved reserves.

Second, it can be costly from a legal perspective when two parties are involved in a lengthy litigation case which forces parties to divert their resources from their core business. Recently, companies who have had their parent wells 'bashed' due to another operator's activities have taken the issue to court.

A 2017 court case demonstrates the financial damages well-bashing can inflict on a company when a federal jury awarded damages of $220,000 to two Oklahoma oil operators who had reported well-bashing by a third-party oil company in 2015. The plaintiff stated that fracking near an existing vertical well caused irreparable damage when over-pressurisation occurred, completely destroying the parent well production. These damages were awarded in respect of an older, vertical well which was producing very modest amounts of oil from an old reservoir. The level of damages involved if a more modern horizontal well was affected could be significantly higher.

Despite being a well-known issue in the drilling of shale gas, there are very few methods of prevention or damage limitation of well-bashing. There are a number of technologies offered by oil services companies that aim to prevent this phenomenon. However, the results in horizontal wells, which now form the majority of new shale wells being drilled, have not been particularly effective so far.

We already knew that our DT Ultravert technology could prevent bashing in vertical wells, but we were delighted to prove its ability to prevent well-bashing in horizontal wells as well during the period. This expands the market opportunity for our product very significantly. We announced the results of our DTU deployment in the Permian Basin in February 2018.

DTU was deployed in a one-mile horizontal well operated by a private upstream oil and gas company in the Permian Basin which is one of the most active shale plays in the US and utilised nitrogen gas injections to pressurise the parent well during the fracking of an offsetting child well. Operations were executed safely and efficiently, which resulted in the desired pressure increases and confirmed Highlands' expectations that DTU is capable of restoring and maintaining protective reservoir pressures in a horizontal wellbore.

In this test we were delighted to see that the reservoir pressure in the parent well was boosted by up to 400% and the elevated pressures were maintained above pre-treatment levels throughout the child well frac operation lasting approximately one week, demonstrating sustained, long-term pressure benefits.

When the parent well resumed production, we reported that the negative effects of bashing had been minimised relative to neighbouring bashed parent wells. Furthermore, in support of our other proposed use of DTU for the enhancement of frac results, new child wells fracked during the DTU deployment are significantly outperforming neighbouring child wells fracked without DT Ultravert. It was therefore a pleasure to present these findings at the North American Prospect Expo (NAPE) conference in Houston, which is among the industry's most widely attended trade shows. Highlands’ team continues to follow up with many oil and gas companies who are interested in DT Ultravert.

With its effectiveness now proven, Highlands is focused on ensuring that the product is ideally placed to meet the needs of customers efficiently and cost effectively. As announced post period end, we acquired 800 acres which host a naturally occurring nitrogen asset in Kansas, thereby securing nitrogen supplies for DTU. For an immaterial cost, we have made our highly disruptive technology potentially more cost effective for our customers, enhancing its commerciality

Following the acquisition at the end of May 2018, we rapidly commenced discussion with the State of Kansas Corporation Commission Conservation Division, which threw up the opportunity for Highlands to first re-enter and re-complete an existing wellbore within its landholding. Positively, flow tests from the Barret 1-14B well, reported on 21 June 2018, indicate initial nitrogen purity levels over 99.59%. The analysis has been conducted by Isotech Labs, a prominent independent laboratory who serves the industry across the United States.

By way of illustration of the importance of this result, nitrogen with 98-99.5% purity is used as a preserving agent by food and beverage producers, meaning that Highlands’ output could be immediately used in this industry.

Of further significance is that the flow rate of the well has increased to 2,581 Mcfpd over time, compared to the initial flow test of 1,769 Mcfpd rate. At these indicative levels of production

Highlands may soon be in a position to secure much of its nitrogen supplies for its DTU needs more economically. For example, during Highlands' successful Parent Well Protect test in the Permian Basin, 8,762 MCF of nitrogen was purchased for a cost of US$79,200 ($9.04 per MCF). Also, during Highlands successful Parent Well Protect test in the Piceance Basin, 12,000 MCF of nitrogen was purchased for a cost of $140,400 ($11.70 per MCF).

The potential of our DTU technology is highly exciting. It can prevent well-bashing in horizontal and vertical wells, improving their performance in tandem. Plus, we still believe that it could be highly desirable to operators looking to refrack their horizontal wells, a process which has not previously been achieved with great success, and in turn trigger a second shale revolution in the US. Given that our testing has mainly been focused on preventing well-bashing, which requires an urgent solution, we have not even scratched the surface in terms marketing it for this purpose, although it is worth bearing in mind that we believe this elegant solution has two future potential applications and therefore, revenue streams.

CO_2 can also be used to increase the productivity of wells. With this in mind, we were delighted to expand our 'Well Enhancement' portfolio through the acquisition of 46,000 acres believed to be prospective for commercial volumes of this gas. This belief was underpinned by the fact that the area sits adjacent to land which was identified as a target for future CO_2 production by Kinder Morgan, one of the leading suppliers of CO_2 to the Permian Basin. Indeed, Kinder Morgan had advanced plans to construct a pipeline from Apache County, Arizona, where Highlands' assets are situated, to the existing pipeline network that provides CO_2 for the Permian Basin. Although this was not pursued due to a pricing decline in 2015 (pricing is usually linked to the price of WTI oil) we believe this is testament to its excellent potential and are delighted to have secured the area. Even more pleasing is the fact that maintenance of the leases will be at minimal cost.

The Board has now commenced discussions with a range of potential end users to fund any drilling activity. Producers are often able to negotiate take or pay contracts and pricing floors to ensure recovery of their investment in CO_2 supply sources.

Helios Two

During the period we increased our acreage at the Helios Two Project and we now hold more than 220,000 acres in southeast Montana which are prospective for natural gas and helium. Indeed, a Competent Person's Report delivered in January 2017 indicated a "best estimate" NPV10 of US$341 million for the natural gas development project alone from a 69,120-acre area and an additional 2.1 billion cubic feet of net attributable helium for this same area. Shareholders should note that this NPV10 figure represents an evaluation of the statistical mean or average expected economic value assuming that the proposed de-watering processes succeeds on a technical basis. In other words, this value assessment has not been discounted based on the technical or process-related risks, and provides a valuation figure for a successful outcome scenario.

As stated above, not only do we now hold much more than this acreage but the helium element is not included in the NPV, highlighting the significant upside potential. Therefore, to have confirmed the presence of both natural gas and helium in two wells during the period is pleasing. Although we have not yet achieved commercial production rates, our early exploration activities have confirmed to Highlands' management the vast potential within this project.

Most recently, a successful test at the beginning of 2018 in the Eagle Formation saw natural gas production rates intermittently peak at up to 216 thousand cubic feet per day ("MCFPD") from the Helios 5-52 16-22 well. We hydraulically fractured the well using a combination of water and foam-based stimulation techniques deployed in three stages and were delighted to report that this delivered the highest production rates yet achieved in the Helios Two project. We have now confirmed that this process has the ability to increase production from the Eagle Formation.

Although the purpose of this exercise was to examine natural gas production rates in the Eagle Formation only, analysis performed at two independent gas laboratories confirmed the presence of 0.31% to 0.33% helium at Helios Two in the Muddy Formation. This is similar to the concentrations of helium exploited at the Hugoton Field in Kansas and Texas, the USA's largest helium resource, which is obviously very exciting for Highlands.

We are employing innovative drilling and completion techniques with the intent to unlock commercial gas production. The strong natural gas production rates were delivered by opening up just two of the frack stages. At the time, we closed the third stage of the frack, or Stage #1, so that we could observe the productivity impacts of long-term clay hydration. The Eagle formation has been soaking for more than seven months. Highlands is now prepared to drill out the bridge plug and begin flow and testing of the well. Operations should begin this summer.

Having deployed a fresh water clay hydration completion aimed to create swelling-related cracks and permeability over a multi-month process, we hope to have strengthened production even further. If this test is successful, this will go some way to validating the project and although it will not provide a definitive understanding of the commercial viability of the project immediately, given the size of the project, it will help us determine the next steps and this project’s future. Total costs for completing stage 1 are estimated to be less than US$100,000 but the potential upside to Highlands in the event of success could be significant.

This could be a strategically important asset for the Group; helium has recently been designated as a critical raw material facing shortage by European authorities. This means that the price potential is strong, particularly in comparison to natural gas.

We look forward to dedicating more time to this project in the coming financial year.

Financial Review

During the year the Group commenced generating revenues from its East Denver drilling operations and has continued with its other investment and evaluation programmes.

Key developments

The Group's main funding, revenue and expenditure activities during the year revolved around its East Denver shale oil and gas project. In June 2017 the Group signed an agreement with Raisa II LLC for Raisa to co-fund the start of the drilling operations with an opportunity to provide finance for future wells. This was shortly followed by a successful fundraising by the Group in July 2017 which raised £3.25 million before costs and provided the Group with sufficient funds to commence drilling its first well at East Denver.

However, during detailed planning for the first well it became apparent that a more optimal development strategy would be to drill and complete two wells contemporaneously. Furthermore, mindful of the scale of the project and in line with our plans set out in our prospectus in July 2017, additional funding for just a second well would still have left the Group with insufficient resources to expand the East Denver operations and move ahead with further wells in the short term. Consequently, in August 2017 the Group signed a second participation agreement with a leading oilfield services company to co-fund the project and placed a further tranche of shares with investors raising a further £1.56 million before costs.

This second agreement and financing round provided sufficient internal and external funds for the Group to drill and complete two wells simultaneously at East Denver, a strategy that was more cost efficient on a "per well" basis.

Our two partners agreed to fund 48.75% of all of the costs in return for a 43% stake in the hydrocarbon output from the development, reducing after certain thresholds had been reached.

In discussion with our partners, it was agreed to carry out this work to the highest possible standards, using state of the art drilling and completion techniques and implementing a range of diagnostic tools which would prove valuable not just for the two wells in question but also for the further development of the project. The enhanced development plan increased the budgeted cost of the wells and meant that Highlands spent a total of $7.5 million in capital costs for these two wells in the year.

Whilst drilling two wells in this manner absorbed substantially all of the Group's financial and human resources in the latter part of the financial year, the advantage of this enhanced approach is demonstrated by the Group's two wells being amongst the best performing wells in the area. The success of the wells is reflected in the Group generating revenues of £2.9 million from its share of the hydrocarbon output from the wells in the five months since flow-back and production started. This also positioned the project for further discussions about funding and developing out the rest of the locations.

In November 2017, Highlands completed its third successful equity fundraising of the year, raising £3.39 million, before costs, to further develop the Group's core projects, principally East Denver but also the DT Ultravert patented technology and the Helios Two prospect.

Drilling and completing just the remainder of the northern unit locations in the East Denver project would require significant human and logistical resources as well as being likely to cost in excess of a further $40 million in capital costs. Given the operational risks inherent in developing the rest of this site and the limited financial and human resources available to the Group, the Board sought further partners to enable the rapid completion of the development programme, without further and unacceptable dilution to its existing shareholders.

In April 2018, the Group concluded a deal with True Oil LLC which secured the future of the project and ensured that the northern units would be rapidly completed and brought online. This final agreement meant that our partners have agreed to fund 100% of the capital costs of the future developments plus making an upfront payment of $5.4 million to the Group in return for which the Group reduced its position to holding a 7.5% net revenue interest in all of the wells, past and future, in the East Denver project, but with no further capital requirements on the Group.

The new deal is effective from 30 April 2018 and will be reflected in the 2019 Group accounts.

Funding

The Group is mainly funded through investment from its shareholders, but during the year signed financing agreements with two partners to jointly develop the East Denver project, which subsequently provided revenues to the Group. During the year, the Group successfully raised approximately £7.4 million, net of costs, through the issue of shares and the exercise of warrants (2017: approximately £8.0 million). The two financing agreements secured funding for the East Denver operations of 48.75% of the capital costs being paid by partners, with 51.25% being contributed by the Group.

Revenue

The Group began generating revenue from its operations in November 2017 and for the period from then until the year end the oil and gas sales provided £2.9 million of income. The post year end refinancing deal announced for East Denver on 20 April 2018 will have a significant impact on both costs and revenue generation in the coming year. It will obviate the need for any additional capital expenditure on the project by the Group in return for a lower income percentage per well but on a larger number of expected wells in production by the end of the current financial year. At this stage it is not possible to indicate what these changes will mean to overall revenues compared to the current year due to the number of variables involved.

Expenditure

Overall, the Group has invested a further £5.9 million in its Oil and Gas Assets during the year, mostly in relation to its drilling operations at East Denver with a smaller amount being capitalised in relation to its Montana and other projects.

Total costs for the year charged to the Consolidated Statement of Comprehensive Income amounted to £6,878,000 (2017: £3,370,000). These costs included patent fees and testing costs on the DTU and Helios Two projects charged directly to the Income Statement totalling approximately £790,000 in aggregate. The Group's share of the direct site costs for the East Denver operation charged directly to the Income Statement amounted to £734,000, although this includes the proportion of staff costs charged to the operation and partially recovered from our partners. There is also a charge of £208,000 in respect of direct taxes on the well output. Furthermore, the Income Statement includes a charge for amortisation and depletion charges on the East Denver project of over £900,000 (2017: nil). With the expansion of the Group's activities, the costs in both administrative and exploration areas have also risen. The recruitment of key staff into our Denver operations through 2016 and 2017 led to an increase in payroll costs of approximately £1.0 million this year, some of which, as noted above, has been charged to the site operations and thus partially funded by our partners. The re-organisation of the financing of the East Denver project post year end should greatly reduce these costs in the coming year.

The Group incurs significant legal, professional, regulatory and consultancy costs both in its Denver operations and in connection with its listing on the London Stock Exchange, notably this year in relation to the prospectus issued in July 2017 and fundraising efforts in general between April and November 2017. Whilst the costs are constrained as far as is possible, the Group has been active in its pursuit of opportunities and in building up its portfolio of projects and complying with all relevant regulations with inevitable expenditure consequences.

Liquidity, cash and cash equivalents

The Group's current assets and current liabilities as at 31 March 2018 are greatly affected by the East Denver operations and so bear little comparison to the position at 31 March 2017.

The major impact arises from Highlands acting as "operator" for the East Denver project on behalf of all the partners. In this role, Highlands delivers and sells all of the hydrocarbon output on behalf of all the owners of the output (our partners, landowners, State interests etc) and collects the proceeds for them prior to settling any tax and State obligations on their behalf and remitting the net balances to them. In addition, Highlands settles all of the capital and operating costs for which it is reimbursed periodically by its partners for their shares of those costs.

The Consolidated Statement of Comprehensive Income reflects just the Group's share of the revenue and costs relating to the East Denver project, whereas the Consolidated Statement of Financial Position reflects the gross amounts receivable and payable in respect of the project as at the balance sheet date.

Thus, whilst the Group had bank balances of £603,000 at the year end (2017: £1,934,000) it was also owed considerable sums by its partners in respect of the East Denver operations, which go towards paying the related liabilities shown in the accounts. Significantly, the post year end transaction generated an immediate cash injection of $5.4 million as well as eliminating the Group's capital requirements as regards East Denver with effect from 1 May 2018.

Outlook

I believe that Highlands has achieved an enormous amount during the period. We are now generating revenues and, in the next 12 months our cash flow is expected to build, creating a robust financial platform for Highlands.

We aim to build our long-term future revenue potential even further by repeating our proven model of acquiring a greenfield project, proving its commerciality through limited drilling and partnering it out to provide us with exposure to the upside without taking on the capital requirements. We look forward to updating shareholders on our progress at West Denver.

We have expanded the market for our potentially revolutionary technology, DT Ultravert, having proved its ability to prevent well-bashing, and improve production, in both horizontal and vertical wells. We are now undertaking initiatives focused on improving the cost profile of the technology, to ensure that the price-point is right for our future customers. In addition, we are strengthening our reputation as enhanced oil recovery experts having acquired the aforementioned CO_2 asset. We look forward to updating shareholders about our activities and discussions regarding these assets going forward.

Finally, our confidence in our natural gas and helium project has continued to build, thanks to the activities during the period, and our forthcoming ventures will be focused on strengthening our understanding of whether the volumes of these gasses are commercial. We look forward to unplugging the third stage of our frack at the well at the project in the near term.

I would like to thank our shareholders for their support and hope that they share in our confidence for the future of this diversified business, located in a politically secure jurisdiction, which has both de-risked revenue generation and plenty of value upside potential.

Robert Price
Chairman

Notice of AGM

The Company announces that it will hold its Annual General Meeting at DAC Beachcroft LLP, 100 Fetter Lane, London EC4A 1BN at 10.00 a.m. on 21 August 2018.

At the AGM, the Company will propose a Special Resolution (number 10) regarding the reduction of capital. By way of additional background, the Companies Act 2006 only permits a company to make distributions to its shareholders out of its profits available for that purpose. Such profits are, broadly, a company's accumulated realised profits so far as not previously utilized by distribution or capitalization, less its accumulated realised losses.
As at 31 March 2018 the Company had an accumulated deficit on its profit and loss account of £3.03 million, issued share capital of £5.82 million and there was £12.82 million standing to the credit of the Company's share premium account. Accordingly, as matters currently stand, the Company does not have distributable reserves and is therefore unable to make any distributions to its shareholders unless or until it's distributable reserves become positive.
The directors of the Company (the "Directors") therefore propose, subject to the approval of its shareholders and of the High Court of Justice of England and Wales (the "Court"), to cancel the Company's share premium and to reduce the nominal value of the existing ordinary shares of 5 pence per share (the "Existing Ordinary Shares") from 5 pence to 1 penny per share by cancelling the paid up capital of 4 pence on each such ordinary share (the "Reduction of Capital"). The Directors then propose to apply the reserve arising to eliminate the Company's accumulated deficit on its profit and loss account and, indeed, to create distributable profits on the balance sheet of the Company of approximately £14.45 million. The Directors believe that, subject to the future performance of the Company, this should give the Company the ability to make distributions to shareholders in the future if, as and when the Directors may

consider that it is appropriate to do so. However, the Directors cannot give any guarantee either that the Company will make any distributions or as to the size of the distributions if any which may be made.

The Reduction of Capital does not involve any distribution or repayment of capital or share premium by the Company and will not reduce the underlying net assets of the Company.

The cancellations of the Company's share premium account and the reduction of the nominal value of the Company's Existing Ordinary Shares from 5 pence to 1 penny will only become effective if (in the following order) (i) resolution 10 is approved by shareholders at the Annual General Meeting, (ii) confirmation is given by the Court, and (iii) the Court order and a statement of capital are delivered to and registered by Companies House.

ENDS

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HIGHLANDS NATURAL RESOURCES PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 MARCH 2018

	Year ended 31 March 2018 £	Year ended 31 March 2017 £
Revenue	**2,900,785**	**-**
Administrative expenses	(6,878,055)	(3,369,749)
Operating loss	**(3,977,270)**	**(3,369,749)**
Finance income	1,033	477
Loss on ordinary activities before taxation	**(3,976,237)**	**(3,369,272)**
Taxation on loss on ordinary activities	-	-
Loss for the period	**(3,976,237)**	**(3,369,272)**
Items that may be re-classified subsequently to profit or loss: Foreign exchange adjustment on consolidation	(1,341,710)	(130,668)
Total comprehensive loss for the period attributable to the equity holders	**(5,317,947)**	**(3,499,940)**
Loss per share (basic and diluted) attributable to the equity holders (pence)	(4.15) p	(6.69) p

HIGHLANDS NATURAL RESOURCES PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2018

	At 31 March 2018 £	At 31 March 2017 £
NON-CURRENT ASSETS		
Tangible assets	73,693	9,737
Intangible assets	8,871,396	5,001,958
	8,945,089	**5,011,695**
CURRENT ASSETS		
Trade and other receivables	2,533,307	384,827
Cash and cash equivalents	602,814	1,934,486
	3,136,121	**2,319,313**
TOTAL ASSETS	**12,081,210**	**7,331,008**
CURRENT LIABILITIES		
Trade and other payables	2,713,549	322,336
TOTAL LIABILITIES	**2,713,549**	**322,336**
NET ASSETS	**9,367,661**	**7,008,672**
EQUITY		
Share capital	5,824,885	3,389,367
Share premium account	12,819,639	7,639,622
Share based payments reserve	887,541	833,332
Foreign currency translation reserve	(1,482,959)	(141,249)
Retained loss	(8,681,445)	(4,712,400)
TOTAL EQUITY	**9,367,661**	**7,008,672**

HIGHLANDS NATURAL RESOURCES PLC
COMPANY STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2018

	At 31 March 2018 £	At 31 March 2017 £

NON-CURRENT ASSETS		
Intangible assets	506,325	576,975
Investment in subsidiary	15,746,518	8,108,904
Loan to group undertaking	37,493	-
	16,290,336	**8,685,879**
CURRENT ASSETS		
Trade and other receivables	27,996	39,059
Cash and cash equivalents	361,690	671,235
	389,686	**710,294**
TOTAL ASSETS	**16,680,022**	**9,396,173**
CURRENT LIABILITIES		
Trade and other payables	174,361	206,184
TOTAL LIABILITIES	**174,361**	**206,184**
NET ASSETS	**16,505,661**	**9,189,989**
EQUITY		
Share capital	5,824,885	3,389,367
Share premium account	12,819,639	7,639,622
Share based payments reserve	887,541	833,332
Retained loss	(3,026,404)	(2,672,332)
TOTAL EQUITY	**16,506,661**	**9,189,989**

HIGHLANDS NATURAL RESOURCES PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 MARCH 2018

	Share capital	Share Premium account	Share based payment reserve	Foreign Currency Translation Reserve	Retained loss	Total
	£	£	£	£	£	£
At 31 March 2016	**1,491,175**	**643,575**	**1,077,582**	**(10,581)**	**(1,807,826)**	**1,393,925**
Comprehensive income for the period						
Loss for the period	-	-	-	-	(3,369,272)	(3,369,272)
Other comprehensive income	-	-	-	-	-	-
Translation adjustment	-	-	-	(130,668)	-	(130,668)
Total comprehensive loss for the period attributable to the equity holders	-	-	-	(130,668)	(3,369,272)	(3,499,940)
				-		
Issue of warrants and options	-	-	220,448	-	-	220,448

Exercise of warrants	-	-	(464,698)	-	464,698	-
Shares issued in the period	1,898,192	7,172,002	-	-	-	9,070,194
Cost relating to share issues	-	(175,955)	-	-	-	(175,955)
At 31 March 2017	**3,389,367**	**7,639,622**	**833,332**	**(141,249)**	**(4,712,400)**	**7,008,672**

	Share capital	Share Premium account	Share based payment reserve	Foreign Currency Translation Reserve	Retained loss	Total
	£	**£**	**£**	**£**	**£**	**£**
At 31 March 2017	**3,389,367**	**7,639,622**	**833,332**	**(141,249)**	**(4,712,400)**	**7,008,672**
Comprehensive income for the period						
Loss for the period	-	-	-	-	(3,976,237)	(3,976,237)
Other comprehensive income	-	-	-	-	-	-
Translation adjustment	-	-	-	(1,341,710)	-	(1,341,710)
Total comprehensive loss for the period attributable to the equity holders	-	-	-	(1,341,710)	(3,976,237)	(5,317,947)

Issue of warrants	-	-	61,401	-	-	61,401
Exercise of warrants	-	-	(7,192)	-	7,192	-
Shares issued in the period	2,435,518	6,060,696	-	-	-	8,496,214
Cost relating to share issues	-	(880,679)	-	-	-	(880,679)
At 31 March 2018	**5,824,885**	**12,819,639**	**887,541**	**(1,482,959)**	**(8,681,445)**	**9,367,661**

HIGHLANDS NATURAL RESOURCES PLC

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 MARCH 2018

	Share capital	Share Premium account	Share based payment reserve	Retained loss	Total
	£	£	£	£	£
At 31 March 2016	**1,491,175**	**643,575**	**1,077,582**	**(1,818,341)**	**1,393,991**
Comprehensive income for the period					
Loss for the period	-	-	-	(1,318,689)	(1,318,689)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period attributable to the equity holders	-	-	-	(1,318,689)	(1,318,689)
Issue of warrants	-	-	220,448	-	220,448
Exercise of warrants	-	-	(464,698)	464,698	-
Shares issued in the period	1,898,192	7,172,002	-	-	9,070,194
Cost relating to share issues	-	(175,955)	-	-	(175,955)

At 31 March 2017	**3,389,367**	**7,639,622**	**833,332**	**(2,672,332)**	**9,189,989**

	Share capital £	Share Premium account £	Share based payment reserve £	Retained loss £	Total £
At 31 March 2017	**3,389,367**	**7,639,622**	**833,332**	**(2,672,332)**	**9,189,989**
Comprehensive income for the period					
Loss for the period	-	-	-	(361,264)	(361,264)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period attributable to the equity holders	-	-	-	(361,264)	(361,264)
Issue of warrants	-	-	61,401	-	61,401
Exercise of warrants	-	-	(7,192)	7,192	-
Shares issued in the period	2,435,518	6,060,696	-	-	8,496,214
Cost relating to share issues	-	(880,679)	-	-	(880,679)

At 31 March 2018	**5,824,885**	**12,819,639**	**887,541**	**(3,026,404)**	**16,505,661**

HIGHLANDS NATURAL RESOURCES PLC

CONSOLIDATED CASHFLOW STATEMENTS

YEAR ENDED 31 MARCH 2018

	2018	2017
Cash flow from operating activities	£	£
Loss for the period	(3,976,237)	(3,369,272)
Adjustments for:		
Depreciation and amortisation charges	992,269	85,750
Charge for the period in respect of Share-based paymen	-	220,448
Cost settled by issue of shares	241,100	-
Operating cashflow before working capital movements	(2,742,868)	(3,063,074)
Increase in trade and other receivables	(2,148,480)	(337,511)
Increase in trade and other payables	2,391,213	268,988
Net cash outflow from operating activities	(2,500,135)	(3,131,597)
Cashflows from investing activities		
Purchase of tangible fixed assets	(77,489)	(11,876)
Investment in Intangible, exploration and drilling rights	(5,853,118)	(4,403,039)
Less: settled by issue of share based payments	-	903,102
Proceeds from sale of exploration and drilling rights	585,951	-
Net cash absorbed by investing activities	(5,344,656)	(3,511,813)
Cashflows from financing activities		
Net proceeds from issue of shares	7,435,836	7,991,137
Net cash generated by financing activities	7,435,836	7,991,137
Net (decrease)/increase in cash and cash equivalents		
As above	(408,955)	1,347,727
Cash and cash equivalents at start of period	1,934,486	717,427

Foreign exchange adjustment on opening balances	(922,717)	(130,668)
Cash and cash equivalents at the end of the year	602,814	1,934,486

HIGHLANDS NATURAL RESOURCES PLC
COMPANY CASHFLOW STATEMENTS
YEAR ENDED 31 MARCH 2018

	2018	**2017**
Cash flow from operating activities	**£**	**£**
Loss for the period	(361,264)	(1,318,689)
Adjustments for:		
Depreciation and amortisation charges	70,650	70,650
Charge for the period in respect of Share-based payments	-	-
Cost settled by issue of shares	241,100	-
Foreign exchange translation adjustments	44,667	(290,451)
(Decrease)/increase in provision against loan to subsidiary	(1,462,935)	893,719
Operating cashflow before working capital movements	(1,467,782)	(644,771)
Decrease/(increase) in trade and other receivables	11,063	8,257
Increase in trade and other payables	(31,823)	164,184
Net cash outflow from operating activities	(1,488,542)	(472,330)
Cashflows from investing activities		
Purchase of Intangible and mineral rights	-	-
Less: settled by issue of share based payments	-	-
Investment in subsidiary	(6,256,839)	(7,350,000)
Net cash absorbed by investing activities	(6,256,839)	(7,350,000)
Cashflows from financing activities		
Net proceeds from issue of shares	7,435,836	7,991,137

Net cash generated by financing activities	7,435,836	7,991,137
Increase in cash and cash equivalents in the year	**(309,545)**	**168,807**
Net (decrease)/increase in cash and cash equivalents		
As above	(309,545)	168,807
Cash and cash equivalents at start of period	671,235	502,428
Cash and cash equivalents at the end of the period	361,690	671,235