HIGHLANDS NATURAL RESOURCES PLC

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 September 2018

OFFICERS AND PROFESSIONAL ADVISORS

Directors (*both executive*)	Robert Brooks Price Jon Melvyn Davies
Company Secretary	Jon Melvyn Davies 9 Limes Road Beckenham Kent BR3 6NS
Registered Office	9 Limes Road Beckenham Kent BR3 6NS
Head Office	9 Limes Road Beckenham Kent BR3 6NS
Denver Office	Suite 200 220 Josephine Street Denver Colorado 80206 USA
Registrars	Share Registrars Limited The Courtyard 17 West Street Farnham Surrey GU9 7DR

HIGHLANDS NATURAL RESOURCES PLC
CHAIRMAN'S STATEMENT AND INTERIM MANAGEMENT REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

I have pleasure in presenting the condensed consolidated financial statements of Highlands Natural Resources plc (the "Company" or "Highlands") for the six months ended 30 September 2018.

Highlights

- Three of Highlands' projects are now revenue generating
- The expansion of East Denver to eight producing wells by the end of this year is expected to deliver sufficient cash flow to cover overhead costs for 2019
- First commercial sale agreement from nitrogen resources in Kansas
- Potential application of naturally occurring nitrogen-hydrogen to organic agriculture
- Formation of Highlands Water Resources to facilitate a range of initiatives for water resource management solutions for the US oil & gas industry

Highlands' Chairman and CEO, Robert Price, said:

"The development agreement concluded for our East Denver Project has been the defining point of 2018. It both fully funded the project at no cost to Highlands and delivered $5.4 million to the Company, enabling us to invest in a broad portfolio of projects in line with our strategy.

"We are expecting to have eight producing wells on the project by the beginning of 2019 and, assuming the new wells perform in line with the first two wells, our 7.5% share of revenues will fully cover all of our overheads.

"In the meantime, two of our new projects, developed during the period under review and funded from the proceeds of our East Denver Project, have already begun to make a revenue contribution. Whilst small at present, we expect to develop both projects and deliver additional revenues during 2019.

"Highlands enters the new year in a strong position and, as our portfolio of operations develops, we look forward to updating our shareholders on our progress."

Chairman's Statement

Operating Review

Since the time of our IPO in 2015, our strategy has been to develop a portfolio of projects whereby approximately 80% of projects generate secure and sustainable revenue while the other projects demonstrate the potential for exciting capital appreciation. As we enter 2019, this strategic objective is well advanced:

- Colorado shale – spearheaded by our East Denver Project, from the end of this month we expect revenues to be more than sufficient to cover overheads for 2019. We continue to examine opportunities to expand the project area as well as monetising our extensive acreage at our West Denver Project.
- Highlands Water Resources – our innovative plan to address water shortages on fracking sites is already delivering revenue. A core objective for 2019 is to seek to expand these operations and therefore secure a stable services-based revenue for the Company.
- Kansas nitrogen discovery – this may represent the most exciting development for Highlands in 2019. We are delighted to announce our first commercial sales today and, based on the level of enquiries and ongoing discussions we have at present, we anticipate further positive developments over the coming months.
- Enhanced oil recovery – we believe that our re-fracking and well protection technology, DT Ultravert, remains a potentially disruptive influence on the oil & gas industry and we continue to examine profitable applications. Securing a proprietary nitrogen supply will make it far more cost effective. Alongside this, but a longer-term objective, is our carbon dioxide asset.
- Montana Project – this represents a more speculative opportunity for Highlands. Sustainable gas production marks a critical milestone but further work is required before the resource becomes economic.

Colorado shale

East Denver

Work at Highlands' East Denver Project is making solid progress with the initial production from the six new wells of the project scheduled to start before the end of December 2018. Fracking operations are now complete. As explained above, this represents arguably the most significant milestone in our history as, for the first time, our projected revenues are expected to cover our overheads for the coming year.

On 20 April 2018, we announced that we had entered into a new third-party financing agreement that effectively replaced the previous arrangements on the project. The Company received $5.4 million in cash and a 7.5% carried interest in all current and future wells. Our new partner, True Oil LLC ("True Oil"), assumed all capital costs and operational responsibilities.

This both strengthened the Company's near term cash position significantly and established Highlands' long-term financial stability. Additionally, we secured a meaningful interest in a project that is now becoming far larger than we could realistically have achieved on our own. The agreement is for our partners to fund six new wells for the project and with further upside potential for an additional 16 wells.

With the operations of the project passed to True Oil, Highlands has been able to reduce its own overheads and operational expenditure costs. Just as importantly, and as described below, we have been able to dedicate additional time and resources to acquire and develop new projects which, in time, may deliver further upside to our shareholders.

True Oil has been quick to deliver on its responsibilities. The start of drilling operations for the second phase of the project was announced on 27 April 2018 with the spud of the third well of the project and, on 11 May 2018, we announced that the spudding of all new six wells was completed.

Drilling completed in July, although the fracking operations for the new wells, which started in mid-August, were unfortunately interrupted due to local water shortages. However, these have since re-started and flowback from all six new wells is expected this month. With this in mind we anticipate producing from a total of eight wells by the end of December 2018.

We hope this represents just the beginning of the value creation for our shareholders. The project's full development potential is 24 wells in total, all of which, if our partners elect to proceed with them, would be developed at no cost to Highlands. The cash flows that could be received by the Company through our 7.5% revenue share could be significant in the future.

Furthermore, we continue to explore avenues to expand the project further. We have maintained strong relationships with prominent oil & gas companies in the area and we periodically assess suitable farm-in opportunities in nearby locations. This needs to be set in context – there is no guarantee that we will secure such opportunities or that they can be delivered on terms that we consider to be acceptable. However, our expectation would be that any expansion of our East Denver Project will fall within the terms of the existing Acquisition and Development Agreement. In other words, development would be funded by our current partners and we would maintain a 7.5% share.

West Denver

On 4 June 2018 Highlands announced its new Colorado shale oil and gas project in an area west of metropolitan Denver. The project bears numerous similarities with the East Denver Project. 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. Since our initial acquisitions, we have expanded our interest in the West Denver Project to a 5,200-acre lease-holding.

Unfortunately, our initial filing of drilling and spacing units for 104-well development project generated concerns from stakeholders in the community nearby and we took the decision to withdraw these applications. Despite this setback, the geological appeal of the project remains compelling and we will continue to examine suitable means of monetising our interests whilst respecting the sensitivities of the localities.

Enhanced Oil Recovery - DT Ultravert, CO_2 and Nitrogen

DT Ultravert

As operators continue to exploit the oil and gas 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 commercial and legal issue in the industry. Well bashing occurs when new wells, or 'child wells', are drilled in close proximity to already producing wells ('parent wells'), at the same time that the existing parent wells are experiencing a natural reduction in their reservoir pressure. When the child well is fracked, it may impact the performance of both the producing and new well 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. This can damage wells beyond repair.

In those circumstances, public companies must report a revision to their recoverable reserves and the downgrade can affect their credit limits if their banks have linked their lending to proved reserves. The problem is compounded if litigation arises between two nearby operations. A 2017 court case demonstrated the financial damages well-bashing can create 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 only 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 the potential seriousness of the situation, there are a limited number of methods of prevention or damage limitation of well-bashing. In particular, the solutions offered by oil services companies have not been particularly effective so far in horizontal wells, which form the majority of new shale wells being drilled.

Highlands' proprietary technology, DT Ultravert, has been successfully deployed in the Permian Basin in February 2018 where it was demonstrated to be effective in preventing well-bashing in horizontal wells. 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 frack operation. When the parent well resumed production, Highlands demonstrated that the effects of well bashing had been minimised relative to neighbouring bashed parent wells. Furthermore, demonstrating DT Ultravert's other potential use of enhancing frack results, new child wells fracked during the deployment significantly outperformed neighbouring child wells that were fracked without DT Ultravert.

Highlands presented these findings at the North American Prospect Expo (NAPE) conference in Houston in February and, since then, the management team has followed up with several oil and gas companies who have expressed interest in DT Ultravert. Whilst enthusiasm for the product has been significant, it is disappointing that, to date, orders have not followed.

It is clear to the directors that DT Ultravert has demonstrated its effectiveness. However, to convert its potential into revenue for the Company, further actions have been taken during 2018:

1. Highlands has acquired over 3,200-acres of leases in Kansas where the Company has discovered substantial volumes of highly-pure nitrogen gas. The Company believes that access to these propriety nitrogen resources will significantly reduce one of the major components of DT Ultravert deployments and, by making the operation more cost effective, the appeal of this novel technology should be enhanced.
2. Highlands has also employed a new Vice President of Engineering with responsibility for DT Ultravert. This individual has previously worked for some of the largest oil services groups in the US and his connections within, and knowledge of, the industry should be invaluable in bringing DT Ultravert to the attention of other management teams.

Nitrogen Discovery

Following our initial 800-acre acquisition at the end of May 2018, we commenced discussions with the State of Kansas Corporation Commission Conservation Division, who gave us the opportunity of re-entering and re-completing an existing wellbore within its landholding. Flow tests from the Barret 1-14B well, announced on 21 June 2018, indicated high nitrogen purity levels.

The flow rate of the well increased to 2,581 Mcfpd over time, compared to the initial flow rate of 1,769 Mcfpd rate. At these indicative levels of production Highlands should be in a position to secure much of its nitrogen supplies for its DT Ultravert needs more economically, this being a principal reason for the investigation of this resource in the first place. By way of illustration, during Highlands' previous deployments of DT Ultravert, nitrogen was purchased for a cost between $9.0 and $11.7 per Mcf.

Nitrogen-Hydrogen Supply for Agriculture

As explained above, our Kansas operations achieved the desired result in giving us a nitrogen resource with high purity levels. In addition, the initial gas analysis also showed evidence of other valuable constituents, including argon and helium. We therefore installed a gas concentration unit to further investigate the characteristics of the produced gas and, amongst other things, the results evidenced hydrogen at concentrations around 8,000 parts per million.

This is potentially a very significant find. Scientific studies show that treatment of soil with hydrogen improves the growth performance of spring wheat, canola, barley and soybean by 15 - 48%. Hydrogen is a key promoter of growth of certain nitrogen fixing micro-organisms. These micro-organisms convert hydrogen and nitrogen into ammonia, which plants take up and utilize for growth. Thus, the addition of molecular hydrogen can impact soil fertility, which is particularly useful for controlled indoor growing operations where the application of traditional anhydrous ammonia based fertilizers is not practical.

It is very unusual to find naturally occurring hydrogen in this way. It is frequently found in oil and gas wells, but hydrogen collected from these wells is inevitably contaminated by hydrocarbons so making the gas toxic for agricultural operations. Consequently, Highlands' gas mixture in Kansas exhibits the very rare characteristic of being entirely free of complex hydrocarbons. This makes it potentially suitable as a fertiliser and, even more significantly, as a fertiliser for organic crops without the need for any treatment whatsoever. Highlands is applying to the United States Department of Agriculture for a certified organic classification of its gas mixture. Obtaining this certification will be invaluable for access to the agricultural industry.

In the meantime, Highlands is pleased to announce that it has entered into an agreement with District 8 Holdings, LLC for a pilot project. Highlands will receive initial revenues of $8,000 for the treatment of around 50 cannabis plants during the normal 90 days growing cycle. The supply of cannabis for both recreational and medicinal use in the State of Colorado is legal and District 8 has an important differentiating factor of being an organic grower. Cannabis is a high value crop compared with other agricultural products and, consequently, the value uplift of being organic is far more significant. In the event of a successful outcome, the directors expect that Highlands' gas mixture will be equally applicable to other crops.

Assuming the pilot is a success then Highlands anticipates sales in far greater volumes. Furthermore, Highlands has agreed to appoint District 8 as its distributor for horticultural and agricultural cannabis and industrial hemp growing operations in the United States and Canada. Cannabis plant production is increasing significantly in the US and Canada with millions of plants grown annually. Highlands believes that capturing even a small percentage of the market would have a significant impact on the Company's revenue.

Whilst this does not detract from the original plan of securing a low-cost source of nitrogen for DT Ultravert, the significance of having a naturally occurring source of hydrogen could be a highly valuable commodity for Highlands.

Carbon Dioxide

CO_2 can also be used to increase the productivity of wells and we were delighted to expand our enhanced oil recovery portfolio through the acquisition, at a minimal cost, of 46,000 acres in Apache County, Arizona of an area believed to be prospective for commercial volumes of this gas. 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. In particular, Kinder Morgan had advanced plans to construct a \$982 million CO_2 project from Apache County to the existing CO_2 pipeline network that supplies the Permian Basin. Although this project was not pursued following the oil price decline in 2015, we believe it is nevertheless a testament to the potential.

The directors have commenced discussions with a range of potential end users of CO_2 to fund any drilling activity.

Highlands Water Resources

Hydraulic fracturing operations, which unlocked the potential of shale oil and gas trapped in tight formations of the ground, usually require vast amounts of clean water. The water used in these operations is then recovered alongside the hydrocarbon products extracted. The consequence is that operators can be left with considerable quantities of water to dispose of at the conclusion of each stage of their operation.

Water produced in fracking contains various chemical impurities. It therefore cannot be released onto the surface and must be safely disposed of, usually by being pumped into separately drilled disposal well either on site or having been transported to a suitable location. The logistics of this adds considerable costs to fracking operations.

Highlands estimates the average cost of acquiring and transportation of the fresh water for hydraulic fracturing operations to be around \$2-3 per barrel in the Denver Julesburg Basin ("DJ Basin") and the Company estimates that the average disposal cost for a barrel of water in the basin is a further \$2-3. Inevitably the acquisition and disposal costs for the water will vary between regions but Highlands believes that this element of the fracking operations is an important component of profit margins of the operators across the United States.

Following the water shortages referred to above in Colorado, Highlands partnered with Epiphany Water Solutions to move two of its E10X modular water treatment solutions to East Denver Project to treat produced water from the operations. Highlands initiated this pilot project to verify the technical and economic merits of the technology for DJ Basin operations. Highlands was processing up to 500 barrels of water per day, receiving $3.50 per barrel.

As announced on 16 October 2018, Highlands has established a new subsidiary, Highlands Water Resources, and has subsequently become a distribution partner for the Epiphany's technology across several US states and is now in discussions with other operators for the deployment of E10X machines. As an authorised distributor, Highlands could receive a sales commission on the machine or, more likely, a "per barrel" fee based on the water that is treated. Highlands believes that the environmental and logistical benefits offered by E10X could make a significant impact on the industry.

As a separate initiative, Highlands has discovered, during its dewatering operations at its Montana Project, that its interests there contain potentially billions of barrels of water suitable for oil and gas operations and specifically in the Powder River basin given its proximity. This is a longer term plan and clearly was not the original strategy for Montana. However, as explained below, any commercial development of Montana is going to require a significant dewatering exercise. If that dewatering can itself become a business line for Highlands, then it will considerably change the economics of that project.

Montana

Highlands holds leases of over 200,000 acres in south-eastern Montana in an area that it considers to be prospective for natural gas and helium. A January 2017 Competent Person's Report for the initial 69,120 acre lease holding first acquired by the Company indicated a "best estimate" NPV10 of US$341 million for a natural gas development project alone, with no account given for any potential helium resource (which was subsequently established by Highlands to be present in concentrations of 0.31% to 0.33%).

Our tests during 2018 on the Eagle formation at Helios Two provided promising, albeit inconsistent, results. As we announced on 1 February 2018, the Helios Two well was stimulated in the Eagle Formation using a combination of water and foam-based stimulation agents in three separate stages. Opening of two of the three stages has resulted in natural gas production rates which peaked at 216 Mcfpd. However, the production rate was not sustainable.

The first stage of the fracturing operation, which was left unopened, was stimulated with water, shut in and left to soak for 10 months and, on 16 October 2018, we announced a sustainable production rate of 58 Mcfpd. This innovative water-based soaking method has enabled Highlands to understand important characteristics of the geology of the project. In comparison to using expensive foam-based stimulation techniques, this method could potentially allow the Company to economically develop the Eagle formation. Given the thickness of the formation, Highlands believes that it could stimulate the formation with potentially up to a dozen stages and achieve potential economic production.

The extensive resource base of the area is not in doubt but the technical challenges for a full development and commercialisation of the project should not be underestimated. Highlands' team has installed autonomous systems for continuous long-term monitoring of gas rates and further data collection at the wellbore and this ongoing testing will confirm over time the commerciality of the project, including the value of the potential water resources as described above. Pending this clarification, the Company expects limited further activity on the Montana natural gas and helium prospects in 2019 and will concentrate on its other projects in the meantime.

Financial Review

The unaudited consolidated statement of financial position as at 30 September 2018 and the consolidated statement of comprehensive income for the six months then ended are set out below.

The results for the period are affected by three main factors, all of which stem from the sale of the majority of the group's working interest in its East Denver operations to True Oil in April 2018.

Firstly, the sale resulted in a decrease in revenues compared to the last six months of the March 2018 financial year, due to both a lower working interest in the wells and the temporary closure of the two original wells during the period to allow for the fracking of the six new wells. We expect these new wells to begin production this month, which will also see production recommence from the Wildhorse and Powell wells, and the corresponding increase in revenue to Highlands will come through in the second half of this financial year.

Secondly, although the sale was linked to the group restructuring its management team, the financial benefit of this reduction in payroll will not be fully apparent until the second half of the year. Going forward, the sale will enable us to reduce our overhead and operating expenditure requirements.

Thirdly, the method of calculating the outcome of the transaction resulted in a book loss solely on the sale of the interest in the asset of almost £1.9m. Against this however, and to put the figure in context, must be considered the revenues generated since production began of £3.4m and projected future revenue streams secured in the deal.

The East Denver project has now more than fully repaid Highlands' original investment in the project and we expect to achieve further significant revenues over the coming year and beyond against a remaining book cost of the project of under £0.2m.

That transaction also has a marked impact on the statement of financial position. Not only does the sale reduce the total book cost of intangible assets on the balance sheet, but also by ceasing to be the operator Highlands has significantly reduced the "trade and other receivables" and "trade and other payables".

The other key change to the balance sheet comes about due to the group's reconstruction of its share capital and share premium account which was approved by the Courts in September 2018. Under this arrangement, the nominal value of the shares was reduced and the share premium account was eliminated, leading to an increase in retained earnings of over £17m (see the consolidated statement of changes in equity and note 8). This change allows Highlands to be in a position to provide shareholders with a distribution should excess revenue become available.

Directors

The Directors of the Company throughout the period were:
Robert Brooks Price
Jon Melvyn Davies

Directors' interests

At 30 September 2018 the Directors had the following interests in the share capital of the company, which remain unchanged during the period:

	Ordinary shares	Warrants over ordinary shares
Robert Brooks Price	12,000,000	23,750,000
Jon Melvyn Davies	300,000	1,000,000

Corporate governance

The UK Corporate Governance Code (September 2014) ("the Code"), as appended to the Listing Rules, sets out Principles of Good Corporate Governance and Code Provisions which are applicable to listed companies incorporated in the United Kingdom. As a standard listed company, the Company is not subject to the UK Corporate Governance Code but the Board recognises the value of applying the principles of the code where appropriate and proportionate and has endeavoured to do so where practicable.

Responsibility Statement

The Directors are responsible for preparing the Condensed Consolidated Financial Statements in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority ("DTR") and with International Accounting Standard 34 on Interim Financial Reporting ("IAS 34"). The Directors confirm that, to the best of their knowledge, this condensed consolidated interim report has been prepared in accordance with IAS 34 as adopted by the European Union. The interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the six months ended 30 September 2018 and their impact on the condensed consolidated financial statements for the period, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- related-party transactions that have taken place in the six months ended 30 September 2018 and that have materially affected the financial position or the performance of the enterprise during that period.

Outlook

Highlands enters 2019 with revenue streams from three projects, placing us, for the first time, in a position of self-sustainability. The core value of the Company is represented by our East Denver Project, which itself is expected to cover all our overheads for next year. The potential expansion opportunities at the project would deliver further upside to Highlands at no cost to us.

In the meantime, we will work towards expanding our water resources and nitrogen operations with the latter perhaps providing the greatest near term excitement. If we can obtain organic certification from the USDA for our naturally occurring source of nitrogen-hydrogen mix, the value for organic agriculture could be significant. Our pilot project results should be known towards the end of the first quarter of 2019.

Robert Price
Chairman and CEO

HIGHLANDS NATURAL RESOURCES PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Notes	Unaudited Six months ended 30 September 2018	Unaudited Six months ended 30 September 2017	Audited Year ended 31 March 2018
		£	£	£
Revenue		**522,408**	**-**	**2,900,785**
Administrative expenses		(3,028,735)	(2,289,080)	(6,878,055)
Operating loss		(2,506,327)	(2,289,080)	(3,972,270)
Loss on disposal of intangible asset	3	(1,883,820)	-	-
Finance income		308	-	1,033
Loss on ordinary activities before taxation		(4,389,839)	(2,289,080)	(3,976,237)
Taxation on loss on ordinary activities	4	-	-	-
Loss for the period		(4,389,839)	(2,289,080)	(3,369,272)
Items that may be re-classified subsequently to profit or loss:				
Foreign exchange adjustment on consolidation		1,076,070	(671,453)	(1,341,710)
Total comprehensive loss for the period attributable to the equity holders		(3,313,769)	(2,960,533)	(5,317,947)
Loss per share (basic and diluted) attributable to the equity holders (pence)	5	(3.74) p	(2.91) p	(4.15) p

HIGHLANDS NATURAL RESOURCES PLC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 30 SEPTEMBER 2018

	Notes	Unaudited At 30 September 2018 £	Unaudited At 30 September 2017 £	Audited At 31 March 2018 £
NON -CURRENT ASSETS				
Tangible assets	6	60,659	9,012	73,693
Intangible assets	7	4,126,719	5,846,034	8,871,396
		4,187,378	**5,855,046**	**8,945,089**
CURRENT ASSETS				
Trade and other receivables		784,854	1,164,348	2,533,307
Cash and cash equivalents		1,993,973	2,932,464	602,814
		2,778,827	**4,096,812**	**3,136,121**
Total assets		**6,966,205**	**9,951,858**	**12,081,210**
CURRENT LIABILITIES				
Trade and other payables		712,313	1,184,418	2,713,549
		712,313	**1,184,418**	**2,713,549**
NET ASSETS		**6,253,892**	**8,767,440**	**9,367,661**
EQUITY				
Share capital	8	1,181,644	5,230,654	5,824,885
Share premium account	8	-	10,456,235	12,819,639
Share based payments reserve		826,140	891,079	887,541
Foreign currency translation reserve		(406,889)	(812,702)	(1,482,959)
Retained profit/(loss)		4,652,997	(6,997,826)	(8,681,445)
TOTAL EQUITY		**6,253,892**	**8,767,440**	**9,367,661**

HIGHLANDS NATURAL RESOURCES PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Share capital	Share Premium account	Share based payments reserve	Foreign Currency Translation Reserve	Retained Profit/(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	-	-	-	-	(2,289,080)	(2,289,080)
Other comprehensive income	-	-	-	-	-	-
Translation adjustment	-	-	-	(671,453)	-	(671,453)
Total comprehensive loss for the period attributable to the equity holders	-	-	-	(671,453)	(2,289,080)	(2,960,533)
Issue of warrants	-	-	61,401	-	-	61,401
Exercise of warrants	-	-	(3,654)	-	3,654	-
Shares issued in the period	1,841,287	3,205,541	-	-	-	5,046,828
Cost relating to share issues	-	(388,928)	-	-	-	(388,928)
At 30 September 2017	5,230,654	10,456,235	891,079	(812,702)	(6,997,826)	8,767,440
Comprehensive income for the period						
Loss for the period	-	-	-	-	(1,687,157)	(1,687,157)
Other comprehensive income	-	-	-	-	-	-
Translation adjustment	-	-	-	(670,257)	-	(670,257)
Total comprehensive loss for the period attributable to the equity holders	-	-	-	(670,257)	(1,687,157)	(2,357,414)
Issue of warrants	-	-	-	-	-	-

Exercise of warrants	-	-	(3,538)	-	3,538	-
Shares issued in the period	594,231	2,855,155	-	-	-	3,449,386
Cost relating to share issues	-	(491,751)	-	-	-	(491,751)
At 31 March 2018	5,824,885	12,819,639	887,541	(1,482,959)	(8,681,445)	9,367,661
Comprehensive income for the period						
Loss for the period	-	-	-	-	(4,389,839)	(4,389,839)
Other comprehensive income	-	-	-	-	-	-
Translation adjustment	-	-	-	1,076,070	-	1,076,070
Total comprehensive loss for the period attributable to the equity holders	-	-	-	1,076,070	(4,389,839)	(3,313,769)
Issue of warrants	-	-	-	-	-	-
Exercise of warrants	-	-	(61,401)	-	61,401	-
Shares issued in the period	83,333	116,667	-	-	-	200,000
Cost relating to share issues	-	-	-	-	-	-
Re-organisation of share capital in period	(4,726,574)	(12,936,306)	-	-	17,662,880	-
At 30 September 2018	1,181,644	-	826,140	(406,889)	4,652,997	6,253,892

HIGHLANDS NATURAL RESOURCES PLC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Unaudited Six months ended 30 September 2018	Unaudited Six months ended 30 September 2017	Audited Year ended 31 March 2018
Cash flow from operating activities	£	£	£
Loss for the period	(4,389,839)	(2,289,080)	(3,976,237)
Adjustments for:			
Depreciation and amortisation charges	73,317	36,714	992,269
Loss on disposal of intangible assets	1,883,820	-	-
Charge for the period in respect of share based payments	-	61,401	-
Costs settled by issue of shares	-	241,100	241,100
Operating cash flow before working capital movements	(2,432,702)	(1,949,865)	(2,742,868)
Decrease/(Increase) in trade and other receivables	1,748,457	(779,521)	(2,148,480)
(Decrease)/increase in trade and other payables	(2,001,236)	862,082	2,391,213
Net cash flow from operating activities	(2,685,481)	(1,867,304)	(2,500,135)
Cashflows from investing activities			
Purchase of tangible fixed assets	(2,746)	(1,293)	(77,489)
Investment in intangible assets, exploration and drilling rights	(830,017)	(1,164,413)	(5,853,118)
Proceeds from sale of exploration and drilling rights	4,269,504	-	585,951
Net cash generated/(absorbed) by investing activities	3,436,741	(1,165,706)	(5,344,656)
Cashflows from financing activities			
Net proceeds from issue of shares	200,000	4,416,800	7,435,836
Net increase in cash and cash equivalents			
As above	951,260	1,383,790	408,955
Cash and cash equivalents at beginning of period	602,814	1,934,486	1,934,486
Foreign exchange adjustment on opening balances	439,889	(385,812)	(922,717)
Cash and cash equivalents at end of period	**1,993,973**	**2,932,464**	**602,814**

HIGHLANDS NATURAL RESOURCES PLC
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

1. GENERAL INFORMATION

Highlands Natural Resources plc ("the Company") and its subsidiary companies (together "the Group") are primarily involved in the oil and gas development sector.

The Company is incorporated and registered in England and Wales as a public limited company under the Companies Act 2006 ("the Act") with registered number 09309241. The registered office and principal place of business in the United Kingdom is 9 Limes Road, Beckenham, Kent BR3 6NS.

2. ACCOUNTING POLICIES

Basis of preparation

The interim condensed unaudited consolidated financial statements for the period ended 30 September 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting. The comparative figures for 31 March 2018 are extracted from the Group's audited accounts to that date. The comparative figures for the period ended 30 September 2017 are unaudited.

The condensed unaudited consolidated interim financial statements of the Group have been prepared on the basis of the accounting policies, presentation, methods of computation and estimation techniques used in the preparation of the audited accounts for the period ended 31 March 2018 and expected to be adopted in the financial information by the Company in preparing its annual report for the year ending 31 March 2019.

The financial information of the Company is presented in British Pounds Sterling ("£").

3. LOSS ON DISPOSAL OF INTANGIBLE ASSET

During the period, the company disposed of 49.5% out of its 57% working interest in its existing and potential future wells at its East Denver site. The loss refers solely to the difference between the proceeds of the sale and the remaining cost to Highlands of the existing wells except for a small amount proportionate to the retained interest in those existing wells. It does not take into consideration any past or future potential revenues from any of the current or new wells.

4. INCOME TAX EXPENSE

No tax is applicable to the Company for the period ended 30 September 2018. No deferred income tax asset has been recognised in respect of the tax losses carried forward, due to the uncertainty as to whether the Company will generate sufficient profits in the foreseeable future to prudently justify this.

5. LOSS PER SHARE

Basic loss per ordinary share is calculated by dividing the loss attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There are currently no dilutive potential ordinary shares.

	Earnings	Weighted average number of shares	Loss per share
	£	Unit	pence
Loss per share attributed to ordinary shareholders	(4,389,839)	117,235,405	(3.74)

6. TANGIBLE ASSETS

Tangible assets comprise sundry plant and office equipment.

	Total
	£
Cost at 31 March 2018	88,112
Additions during the period	2,746
Disposals during the period	(9,713)
Exchange adjustment	6,643
Cost carried forward	87,788
Amortisation at 31 March 2018	14,419
Charge during the period	13,128
Eliminated on disposals during the period	(1,505)
Exchange adjustment	1,087
Amortisation carried forward	27,129
Net book value brought forward	73,693
Net book value carried forward	60,659

7. INTANGIBLE ASSETS

Intangible assets comprise the 75% stake in certain granted and pending patents acquired from Diversion Technologies LLC ("Diversion") plus various leases and mining rights together with exploration and development costs paid during the period.

	Patent rights	Producing Assets	Exploration and evaluation assets	Total
	£		£	£
Cost at 31 March 2017	706,500	7,065,727	2,172,397	9,944,624
Additions during the period	-	39,993	790,024	830,017
Disposals during the period	-	(6,960,450)	-	(6,960,450)
Re-categorisation during the period	-	(373,154)	373,154	-
Exchange adjustment	-	532,659	163,769	696,428
Cost carried forward	706,500	304,775	3,499,344	4,510,619
Amortisation at 31 March 2016	200,175	873,053	-	1,073,228
Charge during the period	35,325	24,864	-	60,189
Eliminated on disposals during the period	-	(815,334)	-	(815,334)
Exchange adjustment	-	65,817	-	65,817
Amortisation carried forward	235,500	148,400	-	383,900
Net book value brought forward	506,325	6,192,674	2,172,397	8,871,396
Net book value carried forward	471,000	156,375	3,499,344	4,126,719

8. SHARE CAPITAL & RESERVES

Allotted, called up and fully paid Ordinary shares of £0.01 (previously £0.05) each:

	Number of shares	Share Capital £	Share Premium £
Balance at 31 March 2018	116,497,700	5,824,885	12,819,639
11 July 2018 - issue of shares at 12p on exercise of warrants	1,666,667	83,333	116,667
25 September 2018 – Court approved re-organisation of share capital	-	(4,726,574)	(12,936,306)
Balance at 30 September 2018	118,164,367	1,181,644	-

The Company has only one class of share and all shares rank pari passu in every respect.

Following a resolution passed by the members at the 2018 Annual General Meeting, the company sought a Court approved restructuring of its share capital and share premium account, which was approved by the Courts in September 2018. Under this restructuring, the nominal value of each ordinary share was reduced from 5 pence to 1 pence and the share premium account was eliminated, with the resulting balances transferred to retained earnings.

9. SUBSEQUENT EVENTS

There have been no events since the year end that require disclosure or inclusion in this statement.