

SAFFRON ENERGY PLC

(Incorporated and Registered in England and Wales – Registration number 10472005)

**INTERIM FINANCIAL STATEMENTS FOR THE
SIX MONTHS ENDED 30 JUNE 2017**

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CHIEF EXECUTIVE OFFICER'S STATEMENT

Total Production for the first six months of 2017 amounted to 2.6 million standard cubic metres of gas (circa 91 million standard cubic feet). Production in 2016 for the same period was 2.4 million standard cubic metres (circa 83 million standard cubic feet).

Production for the period was from the Company's Sillaro and Bezzecca gas fields. Sillaro which is currently producing from a single level - CO - was expected to stop production early in the year, however despite a slight decrease in the daily rate, production from this level continues strong averaging between 5,000 to 10,000 scm/day. As announced to the market in March, the development and tie in of the Bezzecca gas field was completed and commissioned in Q2 on time and on budget with first gas flows on 18 April and full commercial production commencing at a steady rate from the Level A interval in mid-May 2017. Over the first two weeks of July, the Company installed a downhole choke at Bezzecca and production from the field recommenced immediately afterwards from level, A and S. Production rates in Level A were adjusted in order to allow for increased aggregate production from both levels.

The Company continues to make good progress in its application for a full production concession for the gas field Sant'Alberto. The Company is currently awaiting the granting of an Intesa (agreement) from the Emilia Romagna regional government, following which the Ministry of Economic Development in Rome will issue the production concession. The Company had originally anticipated that the Intesa and the production concession would have been granted by the end of the first half of 2017. Saffron now anticipates that this will have been achieved by Q3 2017. Development of Sant'Alberto will follow the grant of the production concession and first gas is now expected in or around Q1 2018.

Finance

In February, the Company successfully listed on the AIM board of the London Stock Exchange following an oversubscribed £2.5m book build and capital raising.

The net loss of the Company after income tax amounted to €916k for the half-year ended 30 June 2017. The operating results for the first six months of the year reflect the fact that commercial production from Bezzecca was only captured in the last two months of the period and include some additional one-off IPO related costs. Consequently the half year results presented in this report are not indicative of the ongoing earnings potential of the Company.

Health and Safety

The Company places a high importance on its commitment to Health, Safety and the Environment (HS&E). Saffron ensures that the various stages of business activities from initial planning to carrying-out daily operational procedures are designed and performed with the implemented HS&E safety systems in mind. A total of 16,058 man- hours worked both on-site and within the administrative office with no incidents or near misses to report is testament to the importance and effectiveness the internal HS&E management systems. Saffron is committed to maintaining environmental sustainability and health and safety in the workplace as they are an integral part of our business strategy and corporate citizenship.

Outlook

During the period, Saffron has reached major milestones with mechanical completion of the tie-in development and commencement of commercial production from Bezzecca, whilst progressing the final stages of approval for its Sant'Alberto field which is intended to come on stream in the next 12 months. On behalf of the Board, I would like to thank our hardworking team in Italy and our valued shareholders for their support during the listing process. We look forward to prospering with the development work as we head towards production from Sant'Alberto in 2018 and prepare for the second phase of production ramp-up which will include a sidetrack well at Sillaro and a second development well at Bezzecca. .

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

	NOTE	30 June 2017 €'000	31 December 2016 €'000
Non-Current Assets			
Inventory		733	-
Other assets		138	-
Deferred tax assets	3	1,995	-
Property, plant & equipment	5	2,294	-
Resource property costs	6	6,077	-
Total non-current assets		11,237	-
Current Assets			
Cash and cash equivalents		522	60
Trade and other receivables		698	-
Total current assets		1,220	60
Total assets		12,457	60
Liability and equity			
Current Liabilities			
Trade and other payables		1,836	-
Provisions	7	52	-
Interest bearing loans	8	393	-
Total current liabilities		2,281	-
Non-Current Liabilities			
Provisions	7	4,992	-
Total non-current liabilities		4,992	-
Total Liabilities		7,273	-
Equity			
Issued capital			
Nominal share capital	9	181	60
Share premium	9	2,455	-
Merger reserve	9	3,464	-
Accumulated losses		(916)	-
Total equity		5,184	60
Total equity and liabilities		12,457	60

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CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTE	30 June 2017 €'000
Revenue**		560
Operating costs		(307)
Depreciation and amortisation expense		<u>(132)</u>
Gross profit		121
Other income		7
Technical & administrative employee benefits*		(442)
Depreciation expense		(4)
Corporate overheads (inc. IPO costs)*		(582)
Exploration costs expensed		<u>(4)</u>
Loss from operating activities		(904)
Finance income		-
Finance expense		<u>(12)</u>
Net finance expense		<u>(12)</u>
Loss before income tax expense		(916)
Income tax expense	2	<u>-</u>
Loss for the period		(916)
Other comprehensive income		<u>-</u>
Total comprehensive loss for the period		<u><u>(916)</u></u>
Loss attributable to:		
Owners of the Company		(916)
Non-controlling interests		<u>-</u>
Loss for the period		<u><u>(916)</u></u>
Total comprehensive loss attributable to:		
Owners of the Company		(916)
Non-controlling interests		<u>-</u>
Total comprehensive loss for the period		<u><u>(916)</u></u>
Basic and diluted loss per share (€)	4	(0.0068)

**Both these line items include one off costs associated with the restructuring and lead up to the IPO on 24 February 2017.*

***The Bezzecca gas field started steady production in May 2017 and so revenue from this new production field is only for just over 2 months.*

No comparative information has been included in the consolidated statement of profit and loss and other comprehensive income as trading commenced in 2017.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to equity holders of the Company				Total €'000
	Share capital €'000	Share Premium €'000	Merger Reserve €'000	Accumulated Losses €'000	
Balance at incorporation	-	-	-	-	-
Contributions by owners	60	-	-	-	60
Balance at 31 December 2016	60	-	-	-	60
Balance at 1 January 2017	60	-	-	-	60
Total comprehensive loss for the period:					
Loss for the period	-	-	-	(916)	(916)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(916)	(916)
Transactions with owners recorded directly in equity:					
Contributions by owners	59	2,884	-	-	2,943
Share based payments for services rendered (non-cash)	4	210	-	-	214
Share based payments for acquisition of subsidiary (non-cash)	58	-	9,942	-	10,000
Goodwill written off	-	-	(6,478)	-	(6,478)
Transaction costs relating to issue of shares	-	(639)	-	-	(639)
Balance at 30 June 2017	181	2,455	3,464	(916)	5,184

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

	30 June 2017	31 December 2016
	€'000	€'000
Cash flows from operating activities		
Receipts from customers	441	-
Payments to suppliers and employees	(1,634)	-
Interest paid	(12)	-
Income tax paid		
	<hr/>	<hr/>
Net cash used in operating activities	(1,205)	-
	<hr/>	<hr/>
Cash flows from investing activities		
Acquisition of cash balances	107	-
Receipts for resource property costs from joint operations partners	100	-
Payments for resource property costs and production plant and equipment	(313)	-
	<hr/>	<hr/>
Net cash used in investing activities	(106)	-
	<hr/>	<hr/>
Cash flows from financing activities		
Proceeds from issues of shares	2,944	60
Transaction costs relating to issue of shares	(582)	-
Proceeds from borrowings	678	-
Repayment of borrowings	(1,267)	-
Payment of borrowing costs other than interest	-	-
	<hr/>	<hr/>
Net cash provided by financing activities	1,773	60
	<hr/>	<hr/>
Net increase in cash and cash equivalents	462	60
	<hr/>	<hr/>
Cash and cash equivalents brought forward	60	-
	<hr/>	<hr/>
Cash and cash equivalents carried forward	522	60
	<hr/> <hr/>	<hr/> <hr/>

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NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 REPORTING ENTITY

Saffron Energy Plc (“the Company”) is a company incorporated in England. The consolidated interim financial report for the six month period ended 30 June 2017 comprises the Company and its interests in its 100% owned subsidiary, associates and jointly controlled entities and operations (together referred to as the “Group”).

The Group is primarily involved in the exploration, appraisal, development of and production from gas properties in the Po Valley region in Italy and is a for profit entity.

DIRECTORS RESPONSIBILITIES

The Directors are responsible for preparing the Interim Review and the Financial Statements in accordance with applicable law and regulations. The Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adapted for use in the European Union.

In preparing these financial statements, the Directors are required to:-

- Select suitable accounting policies and apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s and the Group’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group.

The consolidated interim financial statements were approved by the Board of Directors on 13 September 2017

1.2 BASIS OF PREPARATION

(a) STATEMENT OF COMPLIANCE

The interim financial statements are prepared in accordance with IAS 134 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group for the six months to 30 June 2017. The interim financial statements do not include all information required for full annual financial statements and are not prepared for any statutory purposes and are not required to be audited.

(b) BASIS OF MEASUREMENT

These financial statements from which the financial information is derived have been prepared on the basis of historical cost, subject to, where appropriate, any fair value adjustments under IFRS as adapted for use in the European Union.

(c) ACCOUNTING POLICIES

The accounting policies applied in this interim financial statements are consistent with those that the Directors intend to use in the next financial statements.

(d) GOING CONCERN

The interim financial statements have been prepared on a going concern basis. In arriving at this position, the Directors believe that the Group will have access to sufficient working capital to fund

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administrative and other committed expenditure for a period of not less than 12 months from the date of these interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

(e) **FUNCTIONAL AND PRESENTATION CURRENCY**

The consolidated financial statements are presented in Euro, rounded to the nearest €1,000 (€'000), which is the Company's and of the Group entities functional currency.

(g) **PRINCIPLES OF CONSOLIDATION**

(i) **Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Investments in subsidiaries are carried at cost less any impairment losses.

In the Company's separate financial statements, investments in subsidiaries are carried at cost less any impairment losses.

(ii) **Joint arrangements**

The Group classifies its interests in joint arrangements as either joint operations or joint ventures (see below) depending on the Group's rights to the assets and obligation for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Joint operation - when the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture – when the Group has rights only to the net assets of the arrangement, it accounts for its interest using the equity method adopted for associates as noted in (a) (ii) above.

(iii) **Transactions eliminated on consolidation**

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

NOTE 2: INCOME TAX EXPENSE

Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expenses calculated per the statutory income tax rate

	30 June 2017 €'000
Loss for the year before tax	(916)
Income tax benefit using the Group tax rate of 24%	(220)
Current year losses and temporary differences for which no deferred tax asset was recognised	220
Changes in temporary differences	-
Other non-deductible expenses	-
Income tax expense / (benefit)	-

Tax benefits have not been recognised in respect of tax losses and temporary differences for the first six months based on management's conservative assessment of future taxable profit that would be available against which the Group can utilise the benefits therefrom.

NOTE 3: DEFERRED TAX ASSETS

Deferred tax assets have been recognised in respect of tax losses and temporary differences based on management assessment that future taxable profit will be available against which the Group can utilise the benefits therefrom. Deferred tax assets amounting to €1,994,913 have been recognised in relation to the Italian subsidiary's available tax losses and temporary differences.

NOTE 4: LOSS PER SHARE

	30 June 2017
Basic loss per share (€)	(0.0068)
Diluted loss per share (€)	(0.0068)

The calculation of basic loss per share was based on the loss attributable to shareholders of €916,039 and a weighted average number of ordinary shares outstanding during the half year of 134,165,967.

NOTE 5: PROPERTY, PLANT & EQUIPMENT

	30 June 2017 €'000	31 December 2016 €'000
Office Furniture & Equipment:		
<i>At cost</i>	200	-
<i>Accumulated depreciation</i>	(193)	-
	7	-
Gas producing plant and equipment		
<i>At cost</i>	8,524	-
<i>Accumulated depreciation</i>	(6,237)	-
	2,287	-
	2,294	-

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

NOTE 5: PROPERTY, PLANT & EQUIPMENT (continued)

	30 June 2017	31 December 2016
	€'000	€'000
Reconciliations:		
Reconciliation of the carrying amounts for each class of Plant & equipment are set out below:		
<i>Office Furniture & Equipment:</i>		
Carrying amount at beginning of period	-	
Acquisition of assets	11	
Depreciation expense	(4)	-
	7	-
Carrying amount at end of period		
 <i>Gas Producing plant and equipment:</i>		
Carrying amount at beginning of period	-	-
Acquisition of assets	2,325	-
Additions	21	-
Depreciation expense	(60)	-
	2,286	-
Carrying amount at end of period	2,293	-

NOTE 6: RESOURCE PROPERTY COSTS

	30 June 2017	31 December 2016
	€'000	€'000
Resource Property costs		
Exploration Phase	2,554	-
Production Phase	3,523	-
	6,077	-

Reconciliation of carrying amount of resource properties

Exploration Phase

Carrying amount at beginning of period	-	-
Acquisition of assets (refer note 10)	5,003	
Exploration expenditure	516	-
Transfer to Production phase	(2,965)	-
Exploration expenditure written off	-	-
	2,554	-

Resource property costs in the exploration and evaluation phase have not yet reached a stage which permits a reasonable assessment of the existence of, or otherwise, economically recoverable reserves. The ultimate recoupment of resource property costs in the exploration phase is dependent upon the successful development and exploitation, or alternatively sale, of the respective areas of interest at an amount greater than or equal to the carrying value.

During the period, the Group completed the development of the Bezzecca field. Accumulated costs relating to this field were transferred to production phase assets as production commenced in the second quarter of the year.

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

NOTE 6: RESOURCE PROPERTY COSTS

<i>Production Phase</i>	30 June 2017	31 December 2016
	€'000	€'000
Carrying amount at beginning of period	-	-
Acquisition of assets (refer note 10)	599	
Additions	1	-
Transfer from exploration	2,965	
Change in estimate of rehabilitation assets	-	-
Amortisation of producing assets	(42)	-
Impairment loss		-
Carrying amount at end of period	<u>3,523</u>	<u>-</u>

NOTE 7: PROVISIONS

	30 June 2017	31 December 2016
	€'000	€'000
Current:		
Employee leave entitlements	32	-
Other provisions	20	-
	<u>52</u>	<u>-</u>
Non-Current:		
Restoration provision	<u>4,992</u>	<u>-</u>
Reconciliation of restoration provision:		
Opening balance	4,962	-
Increase in provision from unwind of discount rate	30	-
Closing balance	<u>4,992</u>	<u>-</u>

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

NOTE 8: INTEREST BEARING LIABILITIES

	30 June 2017	31 December 2016
	€'000	€'000
Current liabilities		
Loans	393	-
	393	-

Terms and debt repayment schedule:

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal Interest rate	Year of maturity	30 June 2017		31 December 2016	
				Face value €'000	Carrying Amount €'000	Face value €'000	Carrying Amount €'000
Unsecured loans	AUD	10%	2018	393	393	-	-

NOTE 9: ISSUED CAPITAL

	30 June 2017	Nominal	Share	Merger	30 June 2017
	Number	value	Premium	Reserve	Total
	000's	€'000	€'000	€'000	€'000
Issued Capital					
Opening balance - 1 January	50,000	60	-	-	60
<u>Shares issued during the year:</u>					
Issued for the acquisition of subsidiary	50,000	58	-	9,942	10,000
Goodwill on acquisition of subsidiary	-	-	-	(6,478)	(6,478)
Issued for services rendered	3,720	4	210	-	214
Issued for cash on subscription on AIM listing	50,000	59	2,884	-	2,943
Share issue costs	-		(639)	-	(639)
Closing balance – 30 June 2017	153,720	181	2,455	3,464	6,100
	31 December	Nominal	Share	Merger	31 December
	2016	value	Premium	Reserve	2016
	Number	€'000	€'000	€'000	Total
	000's	€'000	€'000	€'000	€'000
Opening balance					
1 share issued on incorporation	-	-	-	-	-
Issued for cash ⁽ⁱ⁾	50,000	60	-	-	60
Closing balance – 31 December 2016	50,000	60	-	-	60

- (i) 49,999 Shares were issued for cash on 10 November 2016 and on 9 December 2016, the total shares on issue were subdivided into 50,000,000 shares.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

NOTE 9: ISSUED CAPITAL (continued)

All ordinary shares are fully paid and carry one vote per share and the right to dividends. In the event of winding up the Company, ordinary shareholders rank after creditors. Ordinary shares have a par value of £0.001 per share.

No dividends were paid or declared during the current period.

NOTE 10: ACQUISITION OF SUBSIDIARY

In January 2017, the Company acquired 100 percent of the shares in Northsun Italia S.p.A from Po Valley Energy Ltd. Consideration of €10,000,000 for the acquisition was settled by the issue of 50,000,000 ordinary shares at £0.0175 each.

The following table summarises the recognised amounts of assets and liabilities assumed at the date of acquisition:

	€'000
Resource property costs	5,602
Property plant and equipment	2,337
Inventory	733
Deferred tax assets	1,995
Other non-current assets	138
Cash and cash equivalents	107
Trade and other receivables	242
Restoration provision	(4,962)
Other provisions	(52)
Short term borrowings and loans	(991)
Trade and other payables	(1,627)
	<hr/>
Total identifiable net assets acquired	3,522
	<hr/>
Consideration	10,000
Goodwill	6,478
	<hr/>

Goodwill on acquisition of the subsidiary has been netted against the merger reserve (refer note 9).

NOTE 11: SUBSEQUENT EVENTS

Other than matters already disclosed in the interim financial statements, there were no other events between the end of the half-year and the date of this report that, in the opinion of the Directors, affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.