HIGHLANDS NATURAL RESOURCES PLC

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

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Executive Chairman's Review and Strategic Report

Our financial year to 31 March 2019 was bookended by two pivotal events. In April 2018, we farmed out much of our interest and our capital commitment at our East Denver Colorado shale project leaving us with a 7.5 per cent. carried working interest in current and future wells. In March 2019, we raised £1.56 million to establish Zoetic, our wholly owned vertically integrated cannabidiol ("CBD") operation in Colorado.

The combination of these two transactions has streamlined Highlands' operations into two core divisions and has developed two significant sources of revenue for the Highlands Group (the "Group").

Since our IPO in 2015, we have consistently stated that our strategy is to establish a portfolio where 80 per cent. of the Group's operations should be comprised of production assets capable of providing a stable income, with the balancing 20 per cent. of the portfolio providing significant potential upside, albeit at a higher risk. For the first time I am delighted to report that we are very close to realising that ratio. During 2019 East Denver has proved to be a dependable source of revenue, with its monthly contribution providing cover for much of the Group's overheads. Zoetic, which generated its first revenues last month, is fast developing into a very exciting business and a powerful contributor to shareholder returns. This opportunity is particularly exciting given that market researcher Brightfield Group projects that the legal US CBD market will surpass $23 billion in sales by 2023 with a European CBD market of $1.7 billion by 2023. Our remaining projects now take up relatively little management time or resources but remain as potential significant upside for the future.

Therefore, we have entered our 2019/2020 financial year with visibility on our future revenue potential, combining the cost-coverage that East Denver brings us with the rapid business development at Zoetic.

Colorado Shale Projects

East Denver

As stated above, 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 Group received $5.4 million in cash and a 7.5 per cent. carried working interest in current and future wells. Our new partner, True Oil LLC ("True Oil"), assumed all capital costs from June as well as operational responsibilities.

This transaction immediately strengthened the Group's near-term cash position and provided immediate financial stability. Just as importantly, we secured an interest in a project that has become far larger than we could realistically have achieved on our own. Today the project comprises eight producing wells with further upside potential as the carried working interest applies to the next two drilling and spacing units within an Area of Mutual Interest that spans approximately 32,000 acres. These two units could potentially have an additional 16 – 24 wells. The terms of the carried working interest are that there is no additional capital cost for Highlands on the drilling of these new wells, subject to the cost of each well not exceeding $7 million (in which case Highlands would make a contribution equal to 5.5 per cent. of the excess). In addition, we are obliged to meet our 7.5 per cent. share of operating expenses and lease costs of both present and future wells and also account for our share of lease royalties.

Commencement of operations at East Denver

East Denver today

It is worth reflecting that the East Denver project started out as a greenfield project which had strong, yet unproven, potential. In under three years, we have delivered a successful and significant oil & gas operation. We drilled two productive wells, raising both public and private finance, proved the potential of the project to partners who were 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. In that process we have created some very strong industry relationships which will be an important asset to the Group as we continue to operate in the region.

Highlands remained operator of the project until the first four wells were drilled and True Oil assumed operatorship of the project in June. Testament to the commitment of our partner, operations to deliver the additional six wells were commenced quickly. The first of those six was spudded just seven days after the transaction and the last within the following two weeks. Drilling operations for all wells completed in mid-July 2018.

We experienced some delays with the weather conditions over the summer months. Colorado experienced one of the driest summers in recent history and consequently water supply disruptions became commonplace for the local services industry. Our operations were not immune to these problems. Accordingly, the well operator amended the original fracking schedule, with more staggering of the operations to compensate for the drought conditions, and completion of operations was deferred to December.

As part of the need to source more water supplies, we took the initiative to move two E10X modular water-recycling units to the East Denver location to treat production and flow-back water from operations to make the water reusable. This created a new business division for Highlands, further described below.

On 2 January this year, we were able to announce that our operating partner had successfully concluded completion operations for the six new wells at the project and flowback had commenced from three of those six wells. Two weeks later, all eight wells were in production and, by the end of January, following completion of the gas pipeline, gas sales from all eight wells commenced.

The Initial Production rate of 4,600 Boepd during the flow-back period was announced on 25 February, comprising combined oil production of 4,053 Bopd and combined gas production of 3,284 Mcfpd. As production stabilised thereafter, we updated investors in May of this year with production rates of 2,700 Bopd and 4,000 Mcfpd respectively. Our operating partner has from the outset adopted a conservative production strategy with all six new wells choked back. The limited choke size is based on a considered methodology focused on maintaining well pressure and extending the well lives. We anticipate that the chokes will be opened further over time with the objective of maintaining a steady production rate and, for Highlands, a steady and extended revenue stream.

As we announced at the beginning of this month, during June, two of the new wells were taken offline for workovers, which saw a gas lift applied to assist production. The operations were completed successfully and both wells are now back on production. The operator may take the opportunity to install artificial lifting on the remaining four wells in due course, but it is anticipated that this can be achieved through a rod pump.

Operating costs in the second quarter of this calendar year have been higher than initially forecast. These largely relate to one-off costs of the workovers and establishing the gas pipeline. As previously announced, we have received confirmation from the operator that future monthly costs will be considerably reduced.

These recent events have meant that Highlands' objective of covering its overheads from East Denver's cashflow has not been realised over this period. However, the return to production of all wells and the reduced operating costs means that the project's financials should recover.

The nature of oil & gas wells is that they inevitably decline but, in light of the operator's policy of managing a conservative production strategy, the Board is comfortable that East Denver will continue to be a very valuable and significant contributor of cashflow to the Group for some time.

During the month of July 2019 to date, production at East Denver averaged approximately 1,700 Bopd and approximately 5,500 Mcfpd.

West Denver

Following on from our successful development of our East Denver project, in June 2018 we announced that we had acquired a consolidated package of 2,490 acres of oil and gas leases to the west of Denver, Colorado where the Board believes that up to 48 horizontal wells could be drilled. At a total of $50,000 for the initial leases, this represented a low-cost opportunity to develop a new shale project for Highlands. As the year progressed, we expanded the acreage to reach 4,800 acres by the time we filed our spacing and permit applications in October 2018 and 5,352 acres by our year end.

As we reported at the time, these development plans raised some concern from local communities. Highlands has always committed to being a responsible and transparent operator within the state of Colorado and it is not our style or desire to cause any discord. Therefore we withdrew the permits and we continue to consider the most appropriate way to monetise this project in light of the feedback we have received from the local community.

The project bears numerous geological 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.

Other natural resources projects

Enhanced Oil Recovery

As we have reported before, infill drilling is increasingly commonplace in many active US shale regions and, as a result, well-bashing is becoming a rising legal issue in the industry. DT Ultravert is a proven and patented technology which can prevent this problem in both vertical and horizontal wells.

Well-bashing can occur when new wells, or 'child wells', are drilled in close proximity to wells already in production ('parent' wells), at a time that these existing legacy 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 parent well and child 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. In the most serious cases this can damage the wells beyond repair.

The consequences for producers can be serious. First, public companies must report a revision of recoverable reserves and the lower reserve figures can affect their credit limits as banks very often tie their lending to proved reserves. Second, when two parties are involved, it may result in a lengthy and expensive litigation case and there is already precedent for substantial damages to be awarded for well-bashing.

We reported last year that DT Ultravert was successfully deployed in the Permian Basin, one of the most active shale plays in the US. The results confirmed that it is capable of restoring and maintaining protective reservoir pressures in a horizontal wellbore. Furthermore new child wells fracked during the DT Ultravert deployment are significantly outperforming neighbouring child wells fracked without DT Ultravert.

We presented these findings at last year's North American Prospect Expo (NAPE) conference in Houston, which is one of the industry's most widely attended trade shows. We continue to follow up with those who have expressed interest in DT Ultravert.

With well-bashing being such a problem, it is of no surprise that other technologies and techniques are being actively developed to counteract the effects of fracking near existing wells. DT Ultravert is patent protected and we monitor third party activity regularly to ensure there are no infringements.

DT Ultravert Operations in the Piceance Basin, Colorado

DT Ultravert Operations for Laramie Energy during well completions

Our interest in 'Well Enhancement' extends to CO2, which can also be used to increase the productivity of wells, and in June 2018, we announced the acquisition of 46,000 acres believed to be prospective for commercial volumes of this gas. The area sits adjacent to land which was identified as a target for future CO2 production by Kinder Morgan, one of the leading suppliers of CO2 to the Permian Basin. The acquisition and maintenance of the leases were at minimal cost but, notwithstanding our continued belief in the potential, we have allowed our interest in this acreage to lapse, and have made an appropriate impairment provision in these accounts, see Note 11. As I explained at the start of this report, our core focus is now the steady revenue stream from our East Denver project and the rapid upside potential from our CBD interests. Highlands is a small company and we need to be disciplined to focus our time and financial resources on the areas that can have the biggest impact on shareholder returns. With this in mind, we elected not to continue with our project in Arizona.

Kansas Nitrogen

Despite its proven effectiveness, the Directors are aware that the profitable and large-scale commercialisation of DT Ultravert will depend on improving its cost efficiency. Nitrogen represents one of the single largest cost components in a DT Ultravert deployment, as the process pumps significant quantities of liquified and/or gaseous nitrogen into wellbores. Consequently, any cost reductions that can be secured represent an obvious opportunity to improve the economics of DT Ultravert.

With that in mind, we acquired 800 acres in Kansas at the end of May 2018 which host a naturally occurring nitrogen asset. Following the acquisition, we rapidly commenced discussion with the State of Kansas Corporation Commission Conservation Division, which delivered the opportunity for Highlands to first re-enter and re-complete an existing wellbore within its landholding. Flow tests from the Barret 1-14B well, reported on 21 June 2018, indicated initial nitrogen purity levels over 99.59 per cent.

The flow rate of the well increased to 2,581 Mcfpd over time, compared to the initial flow test of 1,769 Mcfpd rate. At these indicative levels of production, we essentially achieved our objective of securing economic nitrogen supplies for DT Ultravert. For comparison, we purchased a total of over 20,000 Mcf of nitrogen during our successful tests in the Permian and Piceance Basins.

At the time of the acquisition, our primary intention was to secure nitrogen supplies for DT Ultravert. However, by way of illustration of the importance of this result, nitrogen with 98-99.5 per cent. purity is used as a preserving agent by food and beverage producers, meaning that Highlands' output could be immediately used in this industry. Given the potential volumes of gas we were able to produce in Kansas, we began to investigate the possibility of becoming a supplier of nitrogen to third parties, in addition to utilising it for our own needs. We estimated that approximately 16 million bushels of corn are grown in the counties surrounding our nitrogen project and therefore agricultural use (utilising nitrogen in the manufacture of ammonia-based fertiliser) was considered to be a strong possibility.

Initial analyses of the gas composition showed traces of both helium and argon and we initially researched the isotopic composition and potential for these. We 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 was a very significant find. Scientific studies show that treatment of soil with hydrogen improves the growth performance of many crops by 15 – 48 per cent. 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 fertilisers 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. Highlands' gas mixture in Kansas exhibits the very rare characteristic of being entirely free of complex hydrocarbons. Consequently, this makes it potentially suitable as a fertiliser and, even more significantly, as a fertiliser for organic crops without the need for any treatment.

Towards the end of 2018, we entered into a pilot project with a Colorado-based organic legal cannabis company for the treatment of around 50 cannabis plants during the normal 90 days growing cycle. Legalised cannabis is a high value crop compared with other agricultural products and, consequently, the value uplift of being organic is far more significant.

Pressure Swing Absorption Unit – Nitrogen Hydrogen Project in Kansas

The results surpassed expectations with the gas mixture increasing plant size, height, root diameter and flower count by up to 30 per cent. This led us into our new business of CBD which is described further below.

In the meantime, we continue to explore avenues for third party sales of our nitrogen gas in Kansas in conjunction with a local partner. It would be unrealistic to anticipate any revenues from this activity to be significant in the short term but, noting the costs of our Kansas operation, we are in a position to offer very attractive prices to potential purchasers whilst still achieving a high margin.

Helios Two (Montana) and Water Resources

Montana

As at 31 March 2019, Highlands held leases over 109,694 acres in south-eastern Montana which is down from our peak holding of 220,009 acres as we let some peripheral leases costing £258,000 to lapse, see Note 11. As we have previously reported our January 2017 Competent Person's Report for the initial lease holding of 69,120 acres indicated a "best estimate" NPV10 of US$341 million for a natural gas development project alone. No account was taken in that report for any potential helium resource although, as previously announced, the presence of helium was subsequently established by Highlands to be present in concentrations of 0.31 per cent. to 0.33 per cent.

Drilling Operations in Montana

With these encouraging results, we have carried out a number of tests on the project and, whilst the outcome of the tests has at times been promising, the information has been inconsistent. Natural gas production rates peaked at 216 Mcfpd but the production rate was not sustainable. However, when the first stage of a subsequent fracturing operation, which was left unopened, was stimulated with water, shut in and left to soak for 10 months, a sustainable production rate of 58 Mcfpd was achieved. This innovative water-based soaking method, in comparison to using expensive foam-based stimulation techniques, could potentially allow us to economically develop the Eagle formation provided that we can increase the level of sustainable production. Given the thickness of the formation, we believe that it may be possible to stimulate the formation with potentially up to a dozen stages and achieve potential economic production.

As we have said before, 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. We continue to monitor long-term gas rates at the wellbore and this will confirm over time the commerciality of the project. As we said at the time of our interim results last year, pending this clarification it would be imprudent to commit extensive financial resources to the project and therefore we have scheduled no material activity on the Montana natural gas and helium prospects for the time being as we concentrate on our other core projects.

One potential initiative that we have described before is that we discovered, during the dewatering operations at Montana, that our acreage there contains potentially billions of barrels of water suitable for oil and gas operations and specifically in the Powder River basin given its proximity. This is clearly not the original strategy for our Montana project and its viability will depend on water requirements in the nearby area which itself is likely to be more weather-dependent than driven by industry activity. However, any commercial development of Montana is going to require a significant dewatering exercise and if that dewatering can itself become a business line for Highlands, then it will considerably change the economics of the project. A number of variables will determine the viability of this initiative so I would caution investors about ascribing too much value to this option although it remains an opportunity that we continue to monitor.

Highlands Water Resources

Hydraulic fracturing operations usually require vast amounts of clean water. Much of 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.

Based on our industry experience as an operator in the region, we estimate 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 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 we believe that this element of the fracking operations is an important component of profit margins of the operators across the United States. According to IHS Markit, the annual water management costs for the Permian Basin alone are expected to reach US$25 billion in the next five years.

Following the water shortages referred to above in Colorado, we 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. We initiated this pilot project to verify the technical and economic merits of the technology for DJ Basin operations. During this pilot project we processed up to 500 barrels of water per day.

We were pleased to announce on 16 October 2018 that we had established a new subsidiary, Highlands Water Resources, and had become a distribution partner for Epiphany's technology across several US states. We commenced discussions with other operators for the deployment of E10X machines for which we could either receive a sales commission on the machine or, more likely, a "per barrel" fee based on the water that is treated.

The viability of the project is not in doubt and the fee potential for future operations includes both recycling the produced water and, separately, re-selling the treated water for re-use in the same hydraulic fracturing operations at the location. However, it is becoming apparent that we would need to considerably increase the scale of Highlands Water Resources to position it as a meaningful partner at some of the larger fracking locations where water use and recycling is most significant. As we focus on our CBD business, that is an opportunity that we may need to defer for a period of time but we remain in discussions with potential partners who may be able to assist us in accelerating this business line.

Zoetic

On 19 and 20 March we announced a fundraising to raise £1.56 million via the issue of new ordinary shares of 1 pence each at a price of 8.5 pence each to establish an organic, vertically integrated cannabidiol ("CBD") operation in Colorado, USA, through a newly established and wholly-owned subsidiary, Zoetic. As explained above, this new business opportunity followed the completion of our very successful recent trial, which saw a nitrogen-hydrogen mix from our operation in Kansas applied as a natural, organic fertiliser at a cannabis operation in Colorado. As reported, the gas mixture increased plant size, height, root diameter and flower count by up to 30 per cent., surpassing our expectations.

Zoetic's business was established on 1 April 2019 so falls after the period end but, given its potential significance to Highlands, it is important to provide some commentary on the business as part of this report.

The business commenced when Highlands entered into an agreement to lease an extensive organic purpose-built indoor growing facility from a company which had ceased its cannabis operations. The management team, which joined Zoetic at the same time, had previously operated that facility, bringing with them all the skills and abilities for Zoetic to commence operations immediately. To incentivise the team, Highlands issued them with 5 million warrants (all of which have now been exercised) and agreed to issue them with 12.9 million ordinary shares in March next year. Part of the rationale for extending Highlands' business into CBD and forming Zoetic was that, in the view of the board, it would secure the benefit of the up to 30 per cent. yield uplift for Highlands' shareholders. The alternative would be to simply sell the gas as a commodity fertiliser for a few dollars per Mcf.

The Company quickly advanced its strategy of vertically integrating its yield-enhancing gas with indoor and outdoor hemp growing as well as developing new products. The passing of 2018 US Farm Bill, which legalised industrial hemp cultivation and hemp-derived products under State-approved programmes, has created a substantial market opportunity for Highlands. We have quickly been able to capitalise on the expertise of the Zoetic management, as well as Colorado's heritage as one of the first states to legalise hemp's close relative cannabis (meaning the local workforce is already experienced in this new industry).

In a rapidly growing market (the US alone is forecast to surpass $23 billion in four years according to Brightfield Group), Zoetic will seek to distinguish itself by producing premium, high quality products and always providing full transparency in its labelling and websites. CBD is becoming an increasingly mainstream supplement, which is available in Boots, Holland & Barrett and other high street stores in the UK. As the CBD market develops further in both the US and the UK, our belief is that discerning consumers will seek out higher quality products.

Zoetic's core asset is the 33,000 square foot state of the art indoor growing facility which can grow up to 10,000 hemp plants per harvest and with at least three harvests per year. In addition, we are growing hemp outside in two fields of 16 acres in total, planted at around 2,500 hemp plants per acre.

We are targeting a yield of 30 grams of CBD per outdoor plant. Estimated wholesale prices are currently at around $3 per gram although, for CBD used in our own retail products, the value to Zoetic will be many times this.

Since establishing Zoetic, the Board has evolved its strategy for plants at the indoor growing facility. In addition to growing plants for CBD production, Zoetic also intends to produce feminised hemp seeds for sale to other hemp producers.

A well-managed plant has the potential to produce in excess of 500 seeds. Whilst the growing cycle for seed production is marginally longer, we believe that the controlled conditions in our indoor growing facility, and the supply of Highlands' proprietary nitrogen-hydrogen gaseous fertiliser, has the potential to establish a robust seed-production operation. This provides Zoetic with a significant revenue opportunity. Zoetic's management team is currently working on the most suitable strains of hemp for seed production and we have seven possibilities identified at the current time.

State of the art 33,000 square foot indoor growing facility in DeBeque, Western Colorado

Proprietary nitrogen-hydrogen gas mix being applied to plants

Demand for high quality seeds is very strong as the hemp and CBD industries continue to expand, and it is not unusual for the most sought after seeds to retail at up to $1 each. Seed producers do typically incur costs associated with laboratory testing, storage, seed-broker fees and quality control initiatives and we have conservatively factored these into Zoetic's business plan. We expect to use all of our indoor planting to fulfil our seed strategy although some wholesale CBD may still be produced from the biomass once the seeds have been extracted from the plant.

A seed production strategy has a timing implication on revenue. Growers typically do not purchase seeds until planting time and so, whilst Zoetic's seed production can be carried out all year-round, revenue will be weighted towards the last quarter of our financial year. Nevertheless the upside that this strategy could provide us outweighs other timing considerations.

Alongside our strategy to produce feminised hemp seeds for sale, we also entered into a collaboration with analytical chemist Stephen Goldman on 28 May 2019, to examine, develop and file patents and other intellectual property on behalf of Company in the areas of (i) agricultural genetics and (ii) pharmaceutical and wellness products based on, or incorporating, cannabinoids. In return for funding the costs of this collaboration, which are not material, all intellectual property that is developed will be owned by Highlands.

We filed our first patent in relation to Mr Goldman's work almost immediately. The patent relates to the methodology for combining cannabinoids with pharmaceutical and wellness products.

Since its inception, Zoetic has established two brands each with their own direct-to-retail websites:

A premium CBD brand available in both the US and UK. It will distinguish itself with full transparency of the contents of its products, both on the labels and on its website.

Products: premium tinctures, soft-gel capsules and topicals

Further details can be found at www.zoetic.com

Chill is positioned as a high quality CBD alternative traditional tobacco products. With an extensive and growing social media presence, Chill involves its customers in its brand.

Products: smokables, vapes and chew pouches

Further details can be found at www.thechillway.com

Progress has been considerable since we established the business. Chill smokables now are sold in a total of 36 stores – 18 Schrader convenience stores and a further 18 stores belonging to smaller chains. Both Chill and Zoetic products are sold by LeafyQuick, a specialist CBD retail that offers same day delivery to the Chicago area, with the first delivery to LeafyQuick being made this week. Ox Distributing, the Company's distribution partner, has also recently indicated its plans to bring Chill products to stores in Texas. In addition, Zoetic products will very shortly be on sale in the UK, initially on our own website and thereafter in stores.

Zoetic is a vertically integrated CBD operation with operations "*from seed to shelf*". As we predicted, the business has already started generating revenues from retail sales and, in the coming months we expect these to increase in line with brand awareness. We expect revenue to be supplemented by further revenues from wholesale hemp and CBD sales later in the year when our outdoor harvest is ready as well as, in the first quarter of 2020, sales of hemp seeds.

As we have said before, the Board has no plans to grow any cannabis at Zoetic's facility. Zoetic plans to grow only hemp, taking advantage in particular of the regime being put in place under the 2018 US Farm Bill.

Overview of Zoetic’s product range – current and planned

Premium organic hemp flower or herbal THC-free cigarettes	Tobacco-alternative herbal CBD pouches for chewing enthusiasts	Transparent CBD and Premium Lead-free hardware
First smoke products manufactured and distributed	Packaging and branding established	Manufactured and ready for distribution

Premium, transparent and effective tinctures produced with organic herb oils	Premium gel capsules produced with high quality CBD	Line of natural premium topical products
Manufactured and ready for distribution	Manufactured and ready for distribution	Coming in near future

In addition to the above, we are poised to launch our range of premium CBD tinctures in the UK. These will be available in four flavours - natural, peppermint, melon and blood orange - and two strengths - 500mg and 1,000mg. Sales will be online and the Company is also in discussions with a specialist distributor with access to retail stores.

Our first shipment arrived in the UK earlier this month and the tinctures are currently being labelled, boxed and made ready for sale.

Non-Core Portfolio

Outside of its core portfolio, Highlands has other assets which, although not currently viewed by the Board as forming part of the Group's core portfolio, may in time be value accretive and could provide significant upside potential.

Highlands holds approximately 3,952 acres of land targeting the Niobrara and Muddy formations in Emmons County, North Dakota, which includes the shallow natural gas prospect, "*Gravity*".

Highlands also holds approximately 1,340 acres in Grand County, Utah which presents it with an in-situ uranium mining opportunity.

Further details of these assets were provided in previous years' strategic reports. Whilst we have not progressed them further this year, we remain of the view that they continue to represent potential upside for the Group in the future.

Other matters

Board changes

Towards the end of the financial year, our former Finance Director, Melvyn Davies, indicated his plans to retire and I was delighted that Nick Tulloch, who has been our financial adviser for four years, agreed to step into the role and join the Board. Like Melvyn, Nick is based in the UK and, in addition to his duties as Finance Director and Company Secretary, will also support the development of the Group's investor relations strategy. Already we are making progress here with a revised website and a social media strategy, underpinned by our new LinkedIn page, to give greater levels of information to our investor base, as well as other audiences important to our business.

Nick replaced Melvyn on 1 May 2019 when Melvyn retired from the Board. Melvyn agreed to stay on with Highlands as a consultant until the publication of these results and to ensure an orderly handover to Nick. He has been a core part of the Highlands team since our IPO and I would like to thank him for his hard work and invaluable advice and wish him all the very best for the future.

Listing on OTC market

We are currently exploring a listing of Highlands' ordinary shares on the OTC market in the United States. With several US shareholders in the Group already and an increasing following in the US developing, we have been exploring ways to make it easier for those investors to trade in our shares. As a London Stock Exchange listed company, obtaining (and maintaining) a listing on the OTC is a relatively straightforward and cost-effective process, with there being no need to file a prospectus or similar document. Independent studies have also shown that increasing the investor audience in this way can have a very positive effect on the liquidity of a company's shares.

We will announce further details as we work through the process but our current target is to complete the listing towards the end of the summer. Listing on the OTC will have no impact on the existing listing of our ordinary shares in London.

Reduction of capital

At our AGM on 21 August 2018, we passed a Special Resolution regarding the reduction of capital. As we explained at the time, due to an accumulated deficit on our profit and loss account, we did not have any distributable reserves and so would be unable to make any distributions to our shareholders. The effect of the reduction of capital was to cancel the Company's share premium and to reduce the nominal value of the existing ordinary shares of 5 pence per share to 1 penny per share by cancelling the paid up capital of 4 pence on each such ordinary share. We then applied the reserve arising to eliminate the Company's accumulated profit and loss account deficit and to create distributable profits at that date of approximately £14.45 million.

This was an important item of housekeeping and, subject to the future performance of the Group, this should give us the ability to make distributions to shareholders in the future as and when the Directors may consider that it is appropriate to do so. Naturally at this stage we cannot give any guarantee either that the Group will make any distributions or as to the size of the distributions which may be made but the Board considered that creating that ability was an important task for Highlands to undertake.

Outlook

As I stated at the beginning of my review, this last financial year was defined by two pivotal events at the start and the end. We began the year as a predominantly oil & gas group with an established and producing project and we finished the year, still with the benefit of considerable revenue upside from this project, but with a foothold in one of the most exciting growth industries at the present time.

It is my belief that as 2019 progresses, our CBD business will become increasingly significant to the Group. We are only a little over four weeks into product sales but early signs are encouraging and, as the Zoetic and Chill brands continue to add more product lines, it is my hope and expectation that growth in this division of Highlands will continue to accelerate. When I report to shareholders next year, our vertically integrated CBD business will be fully established with revenues from seed sales, wholesale CBD and retail sales.

We remain a small and focused management team and naturally every week we must make decisions on where to focus our financial resources and time. Whilst Zoetic has dominated our commitments since the end of the last financial year, I want to assure our shareholders that our other projects remain as viable as they always have been and, even though work may have slowed, the team at Highlands has not lost sight of their potential. DT Ultravert in particular, having proved its ability to prevent well-bashing, and improve production, in both horizontal and vertical wells, remains an opportunity of considerable upside. We continue to develop and police our patents and, as well-bashing, grows in significance throughout the onshore oil & gas community in the US, we remain open to opportunities to monetise our investment in this exciting technology. At present, we have been awarded five patents along with two additional notices of allowances.

I would like to thank our shareholders for their continued support. This financial year is one of great opportunity for Highlands as we diversify away from traditional natural resources but into a new industry that is developing fast and one in which we participate with significant strategic advantages.

RISKS AND UNCERTAINTIES FACING THE GROUP

The uncertainties and risks facing the Group can be split between those it faces in the oil and gas industry and, looking forward, those it faces in the CBD industry, along with, in common with other companies of its size, an overriding financing risk.

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

Financing risk

Ability to obtain additional financing to fund development operations

Notwithstanding our revenue generation, the Group is still in a development phase, whereby it has insufficient internally generated sources of revenues to fully finance the investment in, and development of, its assets. This requires access to funds either from shareholders or third parties to finance its expenditure and operations. Whilst the Board does investigate financing opportunities as appropriate, there can be no certainty that such finance will become available. Failure to access sufficient funds at an appropriate time will have a negative impact on the Group's prospects with the possibility of projects being deferred or some assets being disposed of, in part or in whole, to ensure the continued funding of the rest of the operations. The Group does have access to a $500,000 loan facility which at present is undrawn. The Board considers this to be suitable and prudent cover for the Group should its operations require further funding.

Risks relating to the Group's oil & gas assets

The Group may face operational challenges including delays and cost overruns

Cost overruns or delays in exploitation of its assets are possible in many areas of the Group's plans, and may negatively impact the its operations.

Activities in the oil and gas sectors can be dangerous and may be subject to interruption

At the start of the year the Group was involved directly in oil and gas extraction and production but passed that responsibility to a third party during the period. The Group is not currently involved in extraction and production in mainstream oil & gas (although it is extracting nitrogen from its well in Kansas) but, should it recommence such development work, its future operations will be subject to the significant hazards and risks inherent in the oil and gas sector and countries in which it operates. In addition, the Group's future operations will be subject to all of the risks normally incidental to the drilling of oil wells and the operation and development of oil properties. These risks include but are not limited to failing to discover oil, gas or other substances in paying quantities. The Board will seek to minimise the risks associated with these activities by the subcontracting of the key operational roles to highly skilled and reputable well operators.

Oil prices rise and fall due to global market conditions

Now that the Group is generating revenues from its oil and gas operations, it is exposed to fluctuations in oil and gas prices which will impact its revenue and profitability.

Innovation risk

The Group seeks to develop novel approaches and strategies to a number of problems facing the oil and gas industry. This carries the risk that the approaches may not be successful, may not be adopted by the industry or that any intellectual property devised around these ideas may be challenged. Whilst the Board has confidence in these concepts and the intellectual property cover put in place, there is no guarantee that these novel approaches can be commercially exploited or protected.

Commercialisation of leases and mining rights

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

Risks relating to the Group's CBD business

Risks Associated with Numerous Laws and Regulations relating to CBD

The production, labelling and distribution of the products that the Group distributes are regulated by various federal, state and local agencies. The shifting compliance environment and the need to build and maintain robust systems to comply with different regulations in multiple jurisdictions adds further challenges. If the Group's operations are found to be in violation of any of such laws or any other governmental regulations, the Group may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Group's operations, any of which could adversely affect the Group's business and financial results.

The Group may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are licensed and into which its operations expand. There can be no assurance that the Group will be able to obtain or maintain any necessary licenses, permits or approvals.

Product Viability

If the products the Group sells are not perceived to have the effects intended by the end user, its business may suffer. Many of the Group's products contain innovative ingredients or combinations of ingredients. There is little long-term data with respect to efficacy, unknown side effects and/or interaction with individual human biochemistry.

Success of Quality Control Systems

The quality and safety of the Group's products are critical to the success of its business and operations. As such, it is imperative that the Group's (and its service provider's) quality control systems operate effectively and successfully. Although the Group strives to ensure that all of its service providers have implemented and adhere to high calibre quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on the Group's business and operating results.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labelling disclosure. If any of the Group's products are recalled for any reason, the Group could incur adverse publicity, decreased demand for the Group's products and significant reputational and brand damage. Although the Group has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls.

Product Liability

The Group's products will be produced for sale directly to end consumers, and therefore there is an inherent risk of exposure to product liability claims, regulatory action and litigation if the products are alleged to have caused loss or injury. Accordingly the Group maintains a product liability insurance policy.

Agricultural Operations Risks

Agricultural production by its nature contains elements of risks and uncertainties which may adversely affect the business and operations of the Group, including but not limited to the following: (i) any future climate change with a potential shift in weather patterns leading to droughts and associated crop losses; (ii) potential insect, fungal and weed infestations resulting in crop failure and reduced yields; (iii) wild and domestic animal conflicts; and (iv) crop-raiding, sabotage or vandalism. Adverse weather conditions represent a significant operating risk to the Group, affecting quality and quantity of production and the levels of farm inputs.

Industry Competition

The CBD industry is competitive and evolving. The Group faces strong competition from both existing and emerging companies that offer similar products. Some of its current and potential competitors may have longer operating histories, greater financial, marketing and other resources and larger customer bases than the Group has. Given the rapid changes affecting the global, national, and regional economies generally and the CBD industry, in particular, the Group may not be able to create and maintain a competitive advantage in the marketplace.

Key performance indicators

The Group is still focused on establishing its core businesses and as yet the key performance indicators likely to be applicable to the overall operations have not been set. Once established, the Group's financial, operational, health and safety and environmental key performance indicators will be measured and reported as appropriate.

Gender analysis

A split of our employees and Directors by gender at the year end is shown below:

	Male	Female
Directors	2	none
Employees	6	3

Corporate social responsibility

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

Corporate environmental responsibility

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

Robert Brooks Price
Executive Chairman

24 July 2019

Financial Review

During the year the Group continued generating revenues from the sale of oil and gas from its East Denver operations and has also proceeded with its other investment and evaluation programmes.

Key developments

The Group started the year as operator of two producing East Denver wells as a joint project with its partners. 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 ("True") which secured the future of the project and ensured that the northern units would be rapidly completed and brought into production. True Oil agreed to fund 100 per cent. of the capital costs of the future developments with the Group retaining a 7.5 per cent. net revenue interest in all of the wells, present and future, in the East Denver project. In addition, the Group received $5.4 million in cash for the divestiture of its interest. The transaction was effective from 30 April 2018.

The calculation of the loss on sale of this part of our intangible asset as shown in the Consolidated Statement of Comprehensive Income takes into account only the capital consideration received compared to the proportion of costs relevant to the proportion of the interest sold, adjusted for estimated fair value as at the date of sale. The sum ignores the revenues generated from the site both before and after the deal and it is worth noting that revenues declared from the site over the past two years now exceeds $5 million.

We reported an estimated book loss in our interim statement to 30 September 2018 based, *inter alia*, on an estimation of the fair value of the producing wells and the depletion amortisation needed as at the date of the transaction. In our final figures these estimates have been updated following a review of the site production and the allocation of payments and contributions received from all our partners. This has resulted in the reported loss being reduced from £1.88 million to £1.28 million.

Evaluation of the Group's nitrogen prospects in Kansas gave rise to an intriguing finding for a possible agricultural use which the Board has followed up. As a method of vertically integrating the well production with the use of the output, the Group has expanded into the growth of hemp and the marketing of hemp related products (CBD, seeds etc.). This expansion took place shortly after the year end but was made possible through a fundraising in March 2019.

Funding

The Group has funded its exploration projects to date mainly through investment from its shareholders. However, the deals secured in 2017 from the initial partners in the East Denver project provided partial financing for that development and the agreement signed in April 2018 provided the Group with sufficient working capital such that it did not seek any additional funding from shareholders for its oil and gas projects during the year. In late March 2019, the Group developed the opportunity to commence its Zoetic CBD business as a new venture and raised £1.56 million before costs in order to fund the establishment of that new business.

Revenue

The Group's revenue has fallen from the 2018 figures primarily due to two linked causes. Firstly, under the deal with True Oil, the Group reduced its interest in the producing wells in return for a capital sum and, secondly, because the two producing wells were taken out of operation for a large part of the second half of the calendar year 2018 to allow for the drilling and completion of six additional wells from the same drilling pad. All eight wells were brought into production slowly during December 2018 and January 2019, recommencing revenue generation for the Group only in the final quarter.

Expenditure

The Group continued to invest in its oil and gas projects, although this was scaled back during the financial year in order to conserve resources pending receipt of revenue from the new wells. During the year the Group invested almost $1.9 million in capitalised costs plus a further $1.2 million in lease operating costs and site workovers that were charged directly to the Income Statement for the year. The expenditure is not directly comparable year on year due to the changing nature of the Group's share of ownership of the wells, although there was obviously a marked reduction from 2018 when the Group was completing its East Denver wells along with bearing over half of the costs. The Group cut back its workforce in its Denver office during the year subsequent to completing the True Oil deal but has yet to see the full benefit of that reduction due to severance payments and bonuses payable.

The Group's main costs continue to be its exploration activities, staff costs and external professional fees both in the US and in London where the Company bears the costs associated with its listing on the London Stock Exchange, including legal, regulatory and public relations costs.

The London based running costs have remained relatively static after excluding significant professional costs in 2018 that were incurred in connection with the issuing of a prospectus during that financial year.

Overall, costs in the United States were reduced from $7.4 million to $5.4 million but the full effect of that is not evident from the Consolidated Statement of Comprehensive Income. With Sterling weakening against the US Dollar over the year by about 8 per cent. and the Group still being in development mode with its net costs primarily in US Dollars, this fluctuation in exchange rates has had a detrimental impact on the Group's Consolidated Statement of Comprehensive Income for the year. During 2018 Sterling had strengthened against the US Dollar and the impact of these fluctuations in the exchange rate between a positive impact in 2018 and a negative impact in 2019 gives rise to an adverse swing of approximately £1 million when comparing the two years.

Liquidity, cash and cash equivalents

The temporary suspension of revenues from the East Denver project and the gradual recommencement of output from all eight wells in the final quarter of the year meant that the Group's liquid resources were depleted throughout the latter part of the year, pending receipt of revenues for the final quarter's production.

At the year end the Group held approximately £1.5 million at the bank, effectively being the monies raised to establish Zoetic.

As in previous years, the Consolidated Statement of Comprehensive Income records just the Group's share of revenues and costs relevant to the East Denver operation. Since the Group is no longer the operator of the site, it no longer has contractual obligations in respect of the full production revenues and costs on behalf of these joint operations. Therefore, the Consolidated Statement of Financial Position as at 31 March 2019 only includes balances pertaining to the Group's own position, whereas the comparative figures included balances pertaining to the whole East Denver project. For this reason, the scale of the amounts receivable and the amounts payable has been reduced albeit that the net position for the Group is not significantly different year on year.

The commencement of the Group's CBD business will be cash absorbing for the immediate future whilst the Group is producing its first crop but, with sales already underway from both brands, the Board believes that this division will be cash generative later in the year and will add to the funds expected from the East Denver operations to provide two meaningful revenue streams for the Group in the coming year.

Key Personnel

Board and Senior Management

Robert Brooks Price

Executive Chairman

Robert B. Price, a US citizen, is a successful executive based in Denver, Colorado, USA who has owned and worked in energy and manufacturing companies in North America and Eastern Europe. Mr. Price's joint venture relationships with industry leaders provides the Group with a broad range of contacts including: experts; managers; entrepreneurs; and opinion-formers.

Mr Price liaises with members of the United Kingdom investment banking community, to help achieve the Group's aims to establish holdings of significant acreage on behalf of the Group.

Mr Price, originally from Colorado, immersed himself in Oklahoma's dynamic energy sector after receiving his Juris Doctorate Degree from the University of Tulsa. Subsequently he was Vice President, Trust Officer and Oil and Gas Trust Energy Department Manager of the First National Bank and Trust Company, now JP Morgan Chase Bank. He later formed Brooks Energy Company, which was active in both oil and natural gas exploration and production in the Mid-Continent and Rocky Mountain regions. He also purchased a distributed electric generation business from Tulsa-based Williams Companies, and owned S&R Equipment, a natural gas compressor manufacturing company and rental business. As founder and Chairman of Zeledyne, Mr Price purchased Ford Motor Company's Glass division with plants in Tulsa, Nashville and Juarez, Mexico employing more than 1,200 people. He has also served on numerous other state and local civic boards and commissions, including Family and Children Service, The Oklahoma Centennial Commission, Tulsa Hospital Authority and the Mental Health Association of Tulsa and served as an elected member of the Tulsa Technology Center governing board, which provides workforce training to thousands of Oklahomans. Price also volunteers on the Colorado based Daniels Scholarship Selection Committee and currently services on the Colorado Economic Development Commission.

Nick Tulloch

Finance Director and Company Secretary

Nick Tulloch has advised companies on the UK capital markets for over 20 years. He has worked for several well known investment banks and stockbrokers, including Cazenove, Arbuthnot, Cenkos and Cantor Fitzgerald, holding senior roles at a number of them.

He has extensive financial advisory and corporate broking transaction experience and, with a particular focus on oil & gas, Mr Tulloch has worked on several cross border transactions in many parts of the world. Prior to joining Highlands, he was the Group's corporate finance adviser for four years and assisted in many of the Group's fundraisings and corporate transactions.

Mr Tulloch is based in the UK and, in addition to his duties as Finance Director and Company Secretary, will also support the ongoing development of the Group's investor relations strategy.

Mr Tulloch began his career by qualifying and practicing as a solicitor with Gouldens and he holds a masters in law from Oxford University. He also stood for parliament in 2017.

Key Personnel (continued)

Paul Mendell

Senior Geologist

Paul is an oil and gas producer and co-founder of an AIM listed iodine producer, Iofina. Paul owns interests in over one hundred producing oil and gas wells which he has developed or from properties he acquired and were subsequently acquired by larger firms including Andarko, EnCana, Noble, Bill Barrett Corporation and others.

This production is in Colorado, North Dakota and Oklahoma. Paul has made three new discoveries which were acquired by large companies including Enron and others. He is a self-educated geologist and is a well-respected developer of new concepts in exploration for oil, gas, iodine and other commodities. Paul also worked for Mendell Energy; a Denver based independent oil and gas producer.

Eric Anderson

Senior Vice President

A third generation Landman, Eric continues the legacy of his father and his grandfather who began his career in the Williston Basin in the 1950's. For several years, Eric worked in the field as an independent Landman, negotiating oil & gas contracts in many of the ground breaking exploration and development plays in the Rocky Mountain Region.

In 2011 he became a member of the Executive Management Team for a major oil & gas land company to lead new business development, foster client relationships, and manage the company's leasing projects and field crews. In 2015 Eric began consulting on land projects with Highlands Natural Resources, and later that year joined the Group as Vice President of Land. At Highlands Eric oversees all matters relating to land including negotiations, contracts, title, leasing and Geographic Information Systems work.

Trevor Taylor

Vice President – Zoetic

Prior to joining Highlands, Trevor Taylor was the CEO of District 8 Holdings, the number 1 organic pre-roll selling brand in Colorado, the first state to legalize recreational cannabis in the United States.

Previously, Mr Taylor was a partner and analyst at The Redstone Group, a multi-strategy merger and acquisition brokerage firm, and was the co-founder and COO of Old West Oilfield Services. Mr Taylor helped take the company from initial concept through the final exit in just over five years to Cerberus Capital Management, a global investment firm. Old West was a leading fluids and frack sand logistics services company serving major operators in five US basins.

Mr. Taylor graduated from Colorado State University with honors and a degree in Civil Engineering. He is active in his community serving on multiple boards. Mr. Taylor spends his spare time operating a commercial stone-fruit farm in Palisade, Colorado.

Key Personnel (continued)

Antonio Russo
CRO – Zoetic

Antonio Russo is a cannabis and hemp Industry expert dating back to 2010. Co-founding two cannabis companies encompassing five fully licensed retail stores and three cultivation facilities nearing 100,000 total square feet and the number 1 organic pre-roll selling brand in Colorado.

Antonio was a former board member of MIG (Marijuana Industry Group) formed to help craft Colorado's earliest medical cannabis regulatory framework. MIG is the largest and oldest trade association for licensed cannabis business. He was instrumental in the progression of Colorado Amendment 64, marked as an electoral first worldwide.

His passion for creating memorable brands and bringing life to products that influence positivity are inspiring.

Eric Boyle
Investor Relations

Eric Boyle has over 30 years' experience in stockbroking, fund management and investment banking. Prior to joining Highlands Natural Resources plc on a formal basis in 2017, Eric was a partner of Smith &Williamson Investment Management LLP.

During his career, Eric co-founded two London-listed companies, SR Pharma plc, where he was Chairman until 2004, and Highlands Natural Resources plc in 2015. With the experience gained in studying a diversity of stock markets he has held directorships in three London-listed closed-end funds, including Atlantis Japan Growth Fund Limited where he was a director from 2000-2016. During his career he has raised new capital for several groups launching in both developed and emerging markets.

Directors' Report

The Directors present their report and the financial statements for the year ended 31 March 2019.

Principal Activity

The Group is a vertically integrated producer of CBD products and also seeks to exploit oil and gas producing assets and other technology and mineral rights allied to the oil and gas sector. A detailed review of the activities for the period is given in the Strategic Report.

Results

The Group recorded a loss for the period before taxation of £5,770,724 (2018: loss £3,976,237) and further details are given in the preceding Financial Review. No dividend has been paid during the period nor do the Directors recommend the payment of a final dividend (2018: nil).

Directors

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

R B Price	Executive Chairman
J M Davies	Finance Director and Company Secretary *(retired on 1 May 2019)*

Details of the Directors' in the shares and warrants of the Company are set out in the Directors' Remuneration Report on page 22.

Subsequent to the year end, on 1 May 2019, N G S Tulloch was appointed as Finance Director and Company Secretary.

Further details of the interests of the Directors in the warrants are set out in Note 17 to the financial statements.

Substantial Interests

At 24 July 2019 the Company had been informed of the following substantial interests of over 3 per cent. of the issued share capital of the Company:

	Number	Percentage of Issued Share Capital
R B Price	12,000,000	8.42%
C R Lynas	4,500,000	3.16%

Share Capital

Highlands Natural Resources plc is incorporated as a public limited company, and is registered in England and Wales with the registered number 09309241. Details of the Company's issued share capital, together with the details of the movements during the period, are shown in Note 17. The Company has one class of ordinary shares and all shares have equal voting rights and rank *pari passu* for the distribution of dividends and repayment of capital.

Corporate Governance Statement

The Board is committed to maintaining appropriate standards of corporate governance. The statement below, together with the report on Directors' remuneration on pages 22 to 25, explains how the Company has observed principles set out in The UK Corporate Governance Code ("the Code") as relevant to the Company and contains the information required by section 7 of the UK Listing Authority's Disclosure Rules and Transparency Rules.

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

Board of Directors

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

Audit Committee

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

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

External independent auditor

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

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

The Board appointed a new external independent auditor during the year following a competitive tender process carried out by the Board as a whole.

Remuneration committee

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

Nominations committee

A nominations committee has not yet been established.

Internal financial control

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

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

Shareholder Communications

The Group uses its corporate website (www.highlandsnr.com) to ensure that the latest announcements, press releases and published financial information are available to all shareholders and other interested parties. We have also taken time in the past months to examine other means of keeping our shareholders up to date with our progress and, to that end, Highlands has now set up a dedicated page on LinkedIn. We have used that medium to publish photographs of some of our activities and also relevant news articles that investors may find of interest. It is not intended to be a substitute for RNS announcements but we hope that shareholders will follow that page as an additional means of staying up to date with our progress.

With Zoetic and Chill products now available to retail, we have also commenced a social media marketing campaign to generate and support our sales activities. By definition, this is designed to be product-focused (as opposed to investor-focused). Inevitably there will be considerable overlap with our formal communications and LinkedIn publications but this may be another avenue of interest to shareholders.

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

Directors' Remuneration Report

Remuneration policies

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

The Directors' Remuneration Report for the period ended 31 March 2018 and the Directors' Remuneration Policy were approved by the shareholders at the Annual General Meeting held on 21 August 2018.

The remuneration policy is designed to attract, retain and motivate executive Directors and senior management of a high calibre with a view to encouraging commitment to the development of the Group and for long term enhancement of shareholder value. Remuneration packages take into account individual performance and the remuneration for similar jobs in other comparable companies where such companies can be identified. This would also be taken into account on appointment of any new Directors. The Board believes that share ownership by executive Directors and senior staff strengthens the link between their personal interests and those of shareholders and, although awards have in the past been made under a share option scheme to employees, it is the Board's intention to revise this and implement a long term staff share option scheme. This scheme will have challenging performance conditions and will be designed to align the interests of all Highlands employees to those of its shareholders.

In January 2017 the level of Directors' pay was reviewed and increased to take into account the expanded activities of the Group, and the pay levels implemented for new staff recruited during 2016. The Board considered that it would be inappropriate at that time to consult with the new employees concerning board level remuneration. The level was again reviewed in January 2018 and January 2019 but not increased at either point. No pay rise was implemented for the directors during the current year although bonuses have been awarded to the directors and staff based on significant milestones achieved during the year.

The current Executive Directors' remuneration comprises a basic fee which is reviewed annually and which may be taken as salary or pension contribution, plus suitable health insurance provision. There have been ad hoc bonus payments made in the year but there is no formal bonus or long-term incentive plan in operation for the Directors.

Future Policy Table

Service contract terms	Base salary	Pension contributions	Benefits In kind	Bonus or incentive plan
R B Price	US$300,000	n/a	See below	Ad hoc basis
N G S Tulloch	£150,000	£12,000	See below	Ad hoc basis

The service contracts are reviewed annually.

Benefits in kind

In the US, the Group pays healthcare premiums for its staff at the prevailing rates. In the UK, Mr Tulloch receives private health insurance, travel insurance and death in service benefits.

Service contracts

Mr Price was employed on an initial fixed term of one year from 25 March 2015 and thereafter his employment continues until terminated by the Director or the Group giving six months' prior notice save in the case of a material breach of contract when the Executive Directors can be dismissed without notice. Mr Tulloch was employed on 1 May 2019 and his employment continues until terminated by the Director or the Group giving three months' prior notice save in the case of a material breach of contract when the Executive Directors can be dismissed without notice

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

R B Price is paid at an annual rate of $300,000 and N G S Tulloch at an annual rate of £150,000.

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

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

Approval by members

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

Implementation report

Particulars of Directors' Remuneration (audited)

Particulars of directors' remuneration, including directors' warrants which, under the Companies Act 2006 are required to be audited, are given in Notes 6 and 17 and further referenced in the Directors' report.

Remuneration paid to the Directors during the year ended 31 March 2019 was:

Executive Director	Base salary £	Benefits In kind £	Bonus £	Total £
R B Price*	221,779	47,914	147,853	417,546
J M Davies	100,000	–	30,000	130,000

*Mr Price is based in the Group's Denver office and his remuneration is set in US Dollars. The above table converts that data into Sterling at the average exchange rate ruling during the year.

The benefit in kind represents healthcare premiums which the Group pays for its US based director at the prevailing rates.

Remuneration paid to the Directors during the year ended 31 March 2018 was:

Executive Director	Base salary £	Benefits In kind £	Bonus £	Total £
R B Price	226,027	44,414	69,315	339,756
J M Davies	100,000	–	25,000	125,000

Payments to past Directors (audited)

There were no payments to past directors during the period.

Payments for loss of office (audited)

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

Bonus and Incentive plans (audited)

There were no formal bonus or incentive plans in operation during the period although ad hoc bonuses were paid to directors and staff following significant development milestones achieved in the year.

Percentage change in the remuneration of the Chief Executive

The following table shows the percentage change in the remuneration of the Chief Executive in 2019 and 2018 compared to that of all employees, except directors*, within the group.

		2019 £	2018 £	Change %
Base salary	Chief Executive	221,779	226,027	(1.9)
	All employees*	745,983	987,276	(24.4)
Bonuses	Chief Executive	147,853	69,315	113.3
	All employees*	228,803	210,995	8.4
Benefits in kind	Chief Executive	47,914	44,414	7.9
	All employees*	95,920	93,231	2.9
Total remuneration	Chief Executive	417,546	339,756	22.9
	All employees*	1,133,889	1,291,502	(12.2)

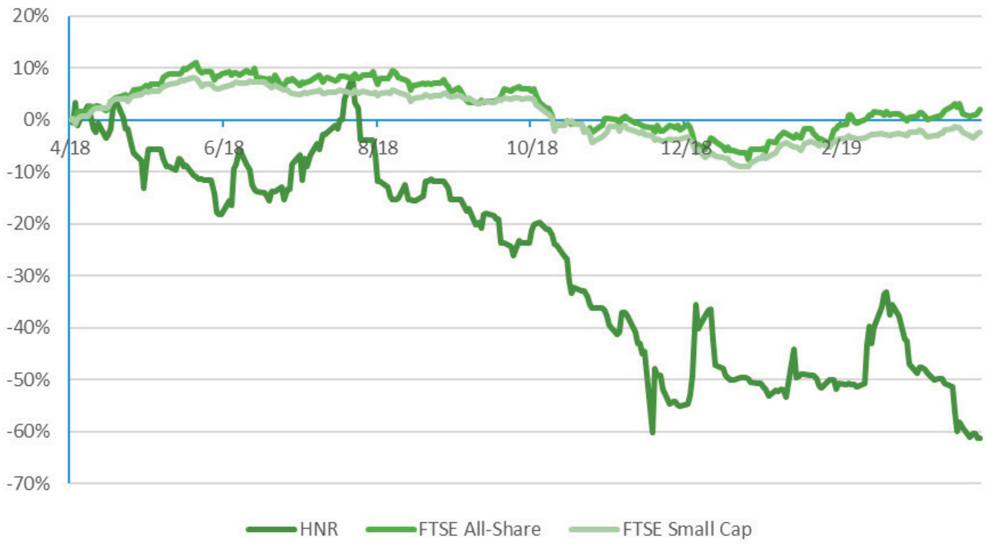
Relative importance of expenditure on remuneration

	2019 £	2018 £	Year on year change: %
Total Directors remuneration	547,546	464,756	17.8
Distributions to shareholders	–	–	n/a

Included in total remuneration is salary, bonuses and benefits in kind

Total Shareholder Return

The following graph illustrates the percentage movement in the Company's share price over the year compared to the percentage movements over the same period of the FTSE-All Share and FTSE-Small Cap indices.



Historic remuneration of the Chief Executive

Year	Salary £	Bonus £	Benefits in kind £	Total £
2016	60,969	–	20,928	81,897
2017	150,222	–	29,957	180,179
2018	226,027	69,315	44,414	339,756
2019	221,779	147,853	47,914	417,546

In the period ended 31 March 2016 R B Price was granted 23,750,000 warrants.

In the period ended 31 March 2016, R B Price waived his salary until 30 September 2015.

During the year ended 31 March 2017, R B Price was awarded a salary increase effective 31 January 2017. No previous or subsequent pay rise has been awarded. The salary and benefits of the Chief Executive are denominated in US Dollars.

Directors' interest in shares (audited)

The Company has no Director shareholding requirement.

The beneficial interest of the Directors in the ordinary share capital of the Company at both 31 March 2019 and 24 July 2019 was:

		Percentage of issued share capital	
Director	**Number**	**at 24 July 2019**	**at 31 March 2019**
R B Price	12,000,000	8.42%	8.79%
J M Davies*	300,000	0.21%	0.22%
N G S Tulloch	–	n/a	n/a

*Mr Davies retired on 30 April 2019 although, to ensure an orderly handover, has continued to work for Highlands as a consultant until 31 July 2019

Mr Price is also a director and 37.5 per cent. shareholder in Diversion Technologies Inc which owns 1,900,000 shares in the Company.

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

Director	**At 31 March 2018**	**Exercised in the year**	**At 31 March 2019**	**Exercise price Pence**	**Earliest date of exercise**	**Latest date of exercise**
R B Price	23,750,000	–	23,750,000	5p	25/03/15	24/03/20
J M Davies*	1,000,000	–	1,000,000	5p	25/03/15	24/03/20
N G S Tulloch	–	–	–	–	–	–
Total	24,750,000	–	24,750,000			

*Mr Davies retired on 30 April 2019 although, to ensure an orderly handover, has continued to work for Highlands as a consultant until 31 July 2019

Remuneration committee

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

Shareholder voting at the Annual General Meeting

The Directors' Remuneration Report for the period ended 31 March 2018 and the Directors' Remuneration Policy were approved by the shareholders at the Annual General Meeting held on 21 August 2018. The votes cast were as follows:

	Number of votes	**% of votes cast**
Directors' Remuneration Report		
For	22,983,726	99.95%
Against	11,590	0.05%
Total votes cast	22,995,316	100%
Number of votes withheld	none	
Directors' Remuneration Policy		
For	22,983,726	99.95%
Against	11,590	0.05%
Total votes cast	22,995,316	100%
Number of votes withheld	none	

This is the Company's fourth period of operation. From the outset the Board has set out and implemented a policy designed in its view to attract, retain and motivate executive Directors of the right calibre and ability. During the past three years the Group recruited a number of key personnel into its Denver operations, giving rise to change in the pay structure for the Group. The last increase in the level of Directors' pay was in January 2017 to take into account the expanded activities of the Group, the increased time involvement of the Board and the revised pay structures throughout the Group at that time. There was no increase in basic remuneration during the current or previous financial years although ad hoc bonuses were paid instead based on the development milestones achieved during the year. There have been no other major changes during the period either in the policy or its implementation, including terms of service for the Directors.

This Directors' Remuneration Report was approved by the Board and signed on its behalf by Nick Tulloch, Director and Company Secretary, on 24 July 2019.

Directors' Report (continued)

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

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

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

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

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

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

So far as the Directors are aware, there is no relevant audit information, as defined by Section 418 of the Companies Act 2006, of which the Group's auditors are unaware and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

The Consolidated Financial Statements are published on the Group's website http://www.highlandsnr.com. The Directors are responsible for the maintenance and integrity of the website. Visitors to the website need to be aware that legislation in the United Kingdom covering the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

We confirm that to the best of our knowledge:

- the Company financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- this Annual Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Directors' Report (continued)

Greenhouse Gas Disclosures

During the year the group moved from exploration and assessment of projects to production of oil and gas, increasing the amount of greenhouse gas emissions for which the group is responsible.

In the year ended 31 March 2019, the Board estimates that the group was responsible for emissions equivalent to in aggregate 5,756 metric tonnes of carbon dioxide resulting from its drilling and production at its East Denver project and its Helios Two testing operations. No figures have been estimated in respect of the small office facilities as these will be minimal in comparison.

The estimates have been provided by an external firm of consultants based on the United States Environment Protection Agency ("EPA") guidance and calculations for greenhouse gas ("GHG") reporting. GHG emissions include methane as well as carbon dioxide and the EPA considers methane to be 25 times as potent as a GHG as carbon dioxide and this multiplier has been used in the calculations of carbon dioxide equivalence.

The emissions for which the group was responsible were mostly from the diesel combustion used to generate electricity for use in drilling and completion of the two wells at East Denver which activity was passed to the operator during the year under review.

Disclosure and Transparency Rules

Details of the Company's share capital and share options and warrants are given in Notes 17 and 19 respectively. There are no restrictions on transfer or limitations on the holding of the ordinary shares. None of the shares carry any special rights with regard to the control of the Company. There are no known arrangements under which the financial rights are held by a person other than the holder and no known agreements or restrictions on share transfers and voting rights.

As far as the Company is aware there are no persons with significant direct or indirect holdings other than the Directors and other significant shareholders as shown on page 20.

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

Requirements of the Listing Rules

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

Listing Rule requirement	
Details of long term incentive schemes as required by Listing Rule 9.4.3R	None – see Directors' Remuneration Report pages 22 to 25
Details of any arrangement under which a Director of the Company has waived emoluments from the Company	Directors' Remuneration Report pages 22 to 25
Details of any allotment for cash of equity securities made during the period otherwise than to the holders of such equity shares other than in proportion to their holdings of such equity shares and which has not been specifically authorised by the Company's shareholders	Note 17 on page 57
Details of any contract of significance subsisting during the period to which the Company is a party and to which a Director of the Company is or was materially interested	Note 25 on page 62
Details of remaining service contract period for director standing for re-election this year	See service contracts details on page 22

Financial Instruments

The Company has exposure to credit risk, liquidity risk and market risk. Note 24 presents information about the Company's exposure to these risks, along with the Company's objectives, processes and policies for managing the risks.

Directors' Report (continued)

Events after the reporting period

On 1 April 2019, the Group established its cannabidiol ("CBD") business through Zoetic Corporation, its wholly owned vertically integrated CBD operation in Colorado, USA. Zoetic has developed quickly since then has planted its 33,000 square foot state of the art indoor growing facility and 16 acres outdoors, the latter at a planting density of 2,500 plants per acre. The indoor growing facility's capacity is up to 10,000 plants per season, with not less than three seasons targeted per year, and a well-managed plant has the potential to produce in excess of 500 seeds. In addition to growing plants for CBD production exclusively, Zoetic also plans to produce feminised hemp seeds for sale to other hemp producers. The Zoetic management team believes that the controlled conditions in the greenhouse, and the supply of Highlands' proprietary nitrogen-hydrogen gaseous fertiliser, has the potential to establish a robust seed-production operation.

Zoetic has also launched two retail brands – Chill and Zoetic, both of which will shortly be available to purchase online (for Chill, in the US only and for Zoetic, in the US and the UK) through their dedicated websites and, in the case of Chill, through 36 stores in Colorado and through LeafyQuick's same-day delivery service in the Chicago area.

On 12 June 2019, the Company allotted and issued a further 5,000,000 ordinary shares upon the exercise of warrants at a price of 8.5 pence per share and allotted and issued a further 1,000,000 ordinary shares following a subscription by members of the Schrader family at a price of 10.0 pence per share. The Schrader family are the owners of Schrader Oil Co., which operates the convenience stores that now stock Zoetic's retail CBD products. This positive development aligns the retailer with Zoetic, which commenced its first sales last month.

Directors' Indemnity Provisions

The Group has implemented Directors and Officers Liability Indemnity insurance.

Going concern

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

Donations

The Company made no political donations during the period.

ON BEHALF OF THE BOARD

Nick Tulloch
Director

24 July 2019

Independent Auditor's Report

To the members of Highlands Natural Resources Plc
Year ended 31 March 2019

Opinion

We have audited the financial statements of Highlands Natural Resources plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's and parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We also determine a level of performance materiality which we use to assess the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be £140,000, with a performance materiality of £84,000. We agreed with the Board that all audit differences in excess of £7,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. Materiality was determined on the basis of 2% of gross assets. We have used this benchmark to determine our materiality, which we believe is the key metric of the Group which is used by shareholders. Given that the Group is currently transforming from an exploration Group to a production Group, we believe that the gross assets represents the key driver of the Group as they are the critical elements of the Group.

We determined materiality for the parent company to be £139,999, with a performance materiality of £84,000. We agreed with the Board that all audit differences in excess of £7,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. Materiality was determined on the basis of 2% of gross assets capped at below the level of Group materiality. We have used this benchmark as the critical element of the company is the value of the subsidiaries along with the cash and patents held.

An overview of the scope of our audit

The Group includes the listed Parent Company and the US based subsidiaries. We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The significant components based in the United States were audited by a component auditor. We had oversight of, and regular communication with, the component auditor who was operating under our instructions. An onsite audit file review of the component auditor was performed by a member of the Group audit team. This, along with further discussions with the component auditor, gave us sufficient appropriate evidence for our audit opinion on the Group financial statements.

As part of our planning we assessed the risk of material misstatement including those that required significant auditor consideration at the component and group level. Procedures were then performed to address the risk identified and for the most significant assessed risks of material misstatement, the procedures performed are outlined above in the key audit matters section of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the key audit matter
Carrying value and assessment of impairment of both Property, Plant and Equipment ("PPE") and intangible exploration and evaluation assets ("IA")	
The carrying value of both PPE and IA are material. Both PPE and IA represent balances from which the group are either generating income or will seek to generate income from in the future. There is a risk that the carrying value of both PPE and IA are impaired.	Audit procedures included but were not limited to: • Ensuring that the Company had good title to the PPE assets held; • Discussing the plans for the assets owned; • Considering whether or not there were any indications of impairment to these assets and challenging managements assumptions thereon; • Reviewing and considering the impairment indicators in IFRS 6 in relation to the intangible assest held; • Obtaining support for the ownership of the intangible assets; and • Reviewing management's basis for non-impairment or impairment and challenging the assumptions made thereon.

Key Audit Matter	How the scope of our audit responded to the key audit matter
Sale of Interest in Powell and Wildhorse Wells	
In April 2018, the group entered into an Acquisition and Development Agreement whereby Highlands sold 49.5% of its 57% working interest in the Powell and Wildhorse wells and any future wells at its East Denver location in return for a commitment from the purchaser to fully fund all future capital costs for both existing and future wells at the location. The consideration included an upfront cash payment of $5m plus a carried interest of 7.5% in all wells at the location. The disposal represents a key milestone in the Group's development and there is the risk that the disposal has been incorrectly treated within the financial statements. There is also the risk that the accounting of the carried interest has been incorrectly recorded within the financial statements.	Audit procedures included but were not limited to: • Reviewing the mathematical accuracy of the disposal calculations; • Verifying the accuracy of the inputs into the calculation; • Consideration of the accounting of the 7.5% interest including challenging management; • Substantively testing the accounting treatment of the 7.5% interest to ensure that the proposed treatment was followed; and • Reviewing the related disclosures within the financial statements.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, which is included in the Directors' Report, the directors are responsible for the preparation of the group and parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group and parent company financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: *http://www.frc.org.uk/auditorsresponsibilities*. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Board of Directors on 30 January 2019 to audit the financial statements for the period ending 31 March 2019. Our total uninterrupted period of engagement is 1 year, covering the period ending 31 March 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the Directors. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items. We communicated laws and regulations throughout our audit team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our audit opinion is consistent with the additional report to those charged with governance.

Use of our report

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

Joseph Archer (Senior Statutory Auditor)

for and on behalf of PKF Littlejohn LLP
Statutory Auditor

1 Westferry Circus
Canary Wharf
London
E14 4HD

Date 24 July 2019

Consolidated Statement of Comprehensive Income

Year ended 31 March 2019

	Notes	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Revenue		**1,016,399**	**2,900,785**
Administrative expenses		(5,511,418)	(6,878,055)
Operating loss	**5**	**(4,495,019)**	**(3,977,270)**
Loss on disposal of intangible asset	7	(1,276,178)	–
Finance income		473	1,033
Loss on ordinary activities before taxation		**(5,770,724)**	**(3,976,237)**
Taxation on loss on ordinary activities	8	–	–
Loss for the period		**(5,770,724)**	**(3,976,237)**
Items that may be re-classified subsequently to profit or loss:			
Exchange difference on handling foreign operations		1,060,393	(1,341,710)
Total comprehensive loss for the period attributable to the equity holders		**(4,710,331)**	**(5,317,947)**
Loss per share (basic and diluted) attributable to the equity holders (pence)	9	(4.88)p	(4.15)p

The accompanying notes on pages 41 to 62 form part of these financial statements

Consolidated Statement of Financial Position

At 31 March 2019

	Notes	At 31 March 2019 £	At 31 March 2018 £
NON-CURRENT ASSETS			
Tangible assets	10	1,503,499	73,693
Intangible assets	11	3,432,536	8,871,396
		4,936,035	**8,945,089**
CURRENT ASSETS			
Trade and other receivables	13	1,186,814	2,533,307
Cash and cash equivalents	14	1,508,649	602,814
		2,695,463	**3,136,121**
TOTAL ASSETS		**7,631,498**	**12,081,210**
CURRENT LIABILITIES			
Trade and other payables	15	1,314,370	2,713,549
TOTAL LIABILITIES		**1,314,370**	**2,713,549**
NET ASSETS		**6,317,128**	**9,367,661**
EQUITY			
Share capital	17	1,364,831	5,824,885
Share premium account	18	1,276,611	12,819,639
Share based payments reserve	19	793,128	887,541
Foreign currency translation reserve	20	(422,566)	(1,482,959)
Retained profit/(loss)		3,305,124	(8,681,445)
TOTAL EQUITY		**6,317,128**	**9,367,661**

The financial statements were approved by the Board of Directors on 24 July 2019 and signed on their behalf by:

Robert Price **Nick Tulloch**

The accompanying notes on pages 41 to 62 form part of these financial statements

Company Statement of Financial Position

At 31 March 2019

	Notes	At 31 March 2019 £	At 31 March 2018 £
NON-CURRENT ASSETS			
Intangible assets	11	435,675	506,325
Investment in subsidiary	12	15,746,518	15,746,518
Loan to group undertaking	12	–	37,493
		16,182,193	**16,290,336**
CURRENT ASSETS			
Trade and other receivables	13	208,501	27,996
Cash and cash equivalents	14	1,293,132	361,690
		1,501,633	**389,686**
TOTAL ASSETS		**17,683,826**	**16,680,022**
CURRENT LIABILITIES			
Trade and other payables	15	152,470	174,361
TOTAL LIABILITIES		**152,470**	**174,361**
NET ASSETS		**17,531,356**	**16,505,661**
EQUITY			
Share capital	17	1,364,831	5,824,885
Share premium account	18	1,276,611	12,819,639
Share based payments reserve	19	793,128	887,541
Retained profit/(loss)		14,096,786	(3,026,404)
TOTAL EQUITY		**17,531,356**	**16,506,661**

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's loss for the year was £634,103 (2018: loss £361,264).

The financial statements were approved by the Board of Directors on 24 July 2019 and signed on their behalf by:

Robert Price **Nick Tulloch**

The accompanying notes on pages 41 to 62 form part of these financial statements

Consolidated Statement of Changes in Equity

Year ended 31 March 2019

	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 and options	–	–	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**

	Share capital £	Share Premium account £	Share based payment reserve £	Foreign Currency Translation Reserve £	Retained loss £	Total £
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	–	–	–	–	(5,770,724)	(5,770,724)
Other comprehensive income	–	–	–	–	–	–
Translation adjustment	–	–	–	1,060,393	–	1,060,393
Total comprehensive loss for the period attributable to the equity holders	–	–	–	1,060,393	(5,770,724)	(4,710,331)
Exercise of warrants	83,333	116,667	(61,401)	–	61,401	200,000
Lapse of warrants	–	–	(33,012)	–	33,012	–
Re-organisation of share capital	(4,726,574)	(12,936,306)	–	–	17,662,880	–
Shares issued in the period	183,187	1,373,903	–	–	–	1,557,090
Cost relating to share issues	–	(97,292)	–	–	–	(97,292)
At 31 March 2019	**1,364,831**	**1,276,611**	**793,128**	**(422,566)**	**3,305,124**	**6,317,128**

The accompanying notes on pages 41 to 62 form part of these financial statements

Company Statement of Changes in Equity

Year ended 31 March 2019

	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**

	Share capital £	Share Premium account £	Share based payment reserve £	Retained loss £	Total £
At 31 March 2018	**5,824,885**	**12,819,639**	**887,541**	**(3,026,404)**	**16,505,661**
Comprehensive income for the period					
Loss for the period	–	–	–	(634,103)	(634,103)
Other comprehensive income	–	–	–	–	–
Total comprehensive loss for the period attributable to the equity holders	–	–	–	(634,103)	(634,103)
Exercise of warrants	83,333	116,667	(61,401)	61,401	200,000
Lapse of warrants	–	–	(33,012)	33,012	–
Re-organisation of share capital	(4,726,574)	(12,936,306)	–	17,662,880	–
Shares issued in the period	183,187	1,373,903	–	–	1,557,090
Cost relating to share issues	–	(97,292)	–	–	(97,292)
At 31 March 2019	**1,364,831**	**1,276,611**	**793,128**	**14,096,786**	**17,531,356**

The accompanying notes on pages 41 to 62 form part of these financial statements

Consolidated Cashflow Statement

Year ended 31 March 2019

	2019 £	2018 £
Cash flow from operating activities		
Loss for the period	(5,770,724)	(3,976,237)
Adjustments for:		
Depreciation and amortisation charges	323,842	992,269
Write off costs of lapsed leases	242,329	–
Loss on disposal of intangible asset	1,276,178	–
Cost settled by issue of shares	–	241,100
Net exchange adjustments	408,396	(740,084)
Operating cashflow before working capital movements	(3,519,979)	(3,482,952)
Decrease/(increase) in trade and other receivables	1,346,493	(2,148,480)
(Decrease)/increase in trade and other payables	(1,399,179)	2,391,213
Net cash outflow from operating activities	(3,572,665)	(3,240,219)
Cashflows from investing activities		
Purchase of tangible fixed assets	(18,913)	(77,489)
Investment in Intangible, exploration and drilling rights	(1,426,609)	(5,853,118)
Proceeds from sale of exploration and drilling rights	4,239,126	585,951
Net cash benerated/(absorbed) by investing activities	2,793,604	(5,344,656)
Cashflows from financing activities		
Net proceeds from issue of shares	1,659,798	7,435,836
Net cash generated by financing activities	1,659,798	7,435,836
Net increase/(decrease) in cash and cash equivalents		
As above	880,737	(1,149,039)
Cash and cash equivalents at start of period	602,814	1,934,486
Foreign exchange adjustment on opening balances	25,098	(182,633)
Cash and cash equivalents at the end of the year	1,508,649	602,814

No net debt reconciliation has been prepared as the Group has no debt.

The accompanying notes on pages 41 to 62 form part of these financial statements

Company Cashflow Statement

Year ended 31 March 2019

	2019 £	2018 £
Cash flow from operating activities		
Loss for the period	(634,103)	(361,264)
Adjustments for:		
Depreciation and amortisation charges	70,650	70,650
Cost settled by issue of shares	–	241,100
Foreign exchange translation adjustments	(4,174)	44,667
(Decrease) in provision against loan to subsidiary	–	(1,462,935)
Operating cashflow before working capital movements	(567,627)	(1,467,782)
(Increase)/decrease in trade and other receivables	(131)	11,063
(Decrease)/increase in trade and other payables	(21,941)	(31,823)
Net cash outflow from operating activities	(589,699)	(1,488,542)
Cashflows from investing activities		
Investment in subsidiary	(138,657)	(6,256,839)
Net cash absorbed by investing activities	(138,657)	(6,256,839)
Cashflows from financing activities		
Net proceeds from issue of shares	1,659,798	7,435,836
Net cash generated by financing activities	1,659,798	7,435,836
Increase/(decrease) in cash and cash equivalents in the year	**931,442**	**(309,545)**
Net increase in cash and cash equivalents		
As above	931,442	(309,545)
Cash and cash equivalents at start of period	361,690	671,235
Cash and cash equivalents at the end of the period	1,293,132	361,690

No net debt reconciliation has been prepared as the Group has no debt.

The accompanying notes on pages 41 to 62 form part of these financial statements

Notes to the Financial Statements

1. General Information

1.1 Group

Highlands Natural Resources plc ("Highlands Natural Resources" or "the Company") and its subsidiaries (together "the Group") are primarily involved in the oil and gas sector. Highlands Natural Resources plc, a public limited company incorporated and domiciled in England and Wales, is the Group's ultimate parent company. The Company was incorporated on 13 November 2014 with Company Registration Number 09309241 and its registered office and principal place of business is 25 Walbrook, London EC4N 8AF.

1.2 Company income statement

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The loss for the financial period dealt with in the accounts of the Company, including provision against the loans to subsidiary companies, amounted to £634,103 (2018: loss £361,264).

2. Principal Accounting Policies

2.1 Basis of preparation

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

2.2 Basis of consolidation

The Group financial information incorporates the financial information of the Company and its controlled subsidiary undertakings, drawn up to 31 March 2019. Control is achieved where the Company:

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

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

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

2.3 Going concern

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

The Group has been generating revenues from the sale of oil and gas from its East Denver shale project and this is forecast to continue but, so long as the project remains at eight wells (and this is a factor the Company has no control over, not being the operator), revenues are unlikely to prove sufficient to support all of its overheads. However, as explained below, the development of revenues from Zoetic is expected to cover any shortfall in this regard.

The Group is currently financed through investment by its shareholders and during the year the Group raised £1.66 million, net of costs, from the exercise of warrants and the issue of shares. During the year, the Group also realised $5.4 million from the sale of the majority of its stake in the East Denver producing wells. The Group made a loss for the year of £5.77 million before taxation and foreign exchange adjustments. Nonetheless, the net cash inflow during the year was £0.91 million for the year, which resulted in the Group holding bank balances of £1.51 million at the year end.

2. Principal Accounting Policies continued

Significantly, the Group entered into new arrangements post year end for the development of its new Zoetic's CBD business. This has been cash absorbing in the early months as the business is established but, with the new division already generating its first revenues and sales underway in both the US and UK, the Directors believe that the Zoetic's operation will become cash generative month by month during the second half of the year. The Group has restricted development of its other projects during the year due to constraint on resources and to fully develop these at the rate it wishes and to explore new opportunities the Group would need to access further finances.

The Board is in discussion with a number of parties concerning their possible involvement in, and financing of, the Group's other projects such as the West Denver oil and gas prospect and the Montana water opportunity, as it did for its East Denver project. In conjunction with this, the Board also periodically considers other financing opportunities that may be available to the Group either for a specific project or for general working capital and development purposes.

The Directors have reviewed the working capital requirements of the Group for the next 12 months and are confident that these can be met. Whilst the Group generated revenues of £1.0 million during the year, this was restricted by the drilling and completing of six new wells during the year which only started producing in early 2019. In addition to those revenues, the Group realised $5.4 million from asset sales as noted above. Through its continued participation in the East Denver operations, the Group will continue to generate revenues from oil and gas sales during the current year and the Directors believe that the CBD business has the potential to be significantly cash generative in the latter part of the current financial year. The combination of these two sources of revenue is expected by the Directors to cover all of the Group's overheads for the current financial year.

Furthermore, the Directors have a reasonable expectation that additional finances will become available during the course of the year through royalties and exploitation income relating to either new or existing agreements and, if required, the issue of further shares either through equity placings or the exercise of warrants. The Directors believe that the continued receipt of revenues from oil and gas and CBD sales during the coming year will provide the Group at a minimum with a base level of cash inflow and thus with greater flexibility in its cash management.

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

2.4 Business combinations

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

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

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

2.5 Revenue recognition

The Group has received revenue during the period from the sale of oil and gas.

The Group records revenues from the sales of crude oil, natural gas, and natural gas liquids when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards or ownership have been transferred to the customer and collection of the sales price is reasonably assured. The performance obligation is identified to be the delivery of oil and gas to the customer, and the transaction price is allocated to the amount of oil and gas delivered. These criteria for performance obligation are assessed to have occurred once the product has been delivered to the customer.

Revenues and expenses from production on properties in which the Company shares an economic interest with other owners are recognised on the basis of the Company's pro-rata interest. Revenues are reported on a net revenue interest basis, which excludes revenues that are attributable to other parties' working or royalty interests.

2. Principal Accounting Policies continued

The Group utilises simple supply contracts such that there are no forward sale or purchase agreements in place, no volume commitments nor any use of hedging or derivative products.

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

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

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

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

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

2.6 Foreign currency translation

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

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Sterling using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in equity. Cumulative translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

2.7 Defined contribution pension funds

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

2.8 Investment in subsidiaries

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

2. Principal Accounting Policies continued

2.9 Financial assets and liabilities

Financial assets

(a) Classification

The Group classifies its financial assets at amortised cost and at fair value through the profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(b) Recognition and measurement

Amortised cost

Regular purchases and sales of financial assets are recognised at cost on the trade date, the date on which the Group commits to purchasing or selling the asset. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred, and the Group has transferred substantially all of the risks and rewards of ownership.

Fair value through the profit or loss ("FVTPL")

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") are measured at FVTPL. The Group holds equity instruments that are classified as FVTPL as these were acquired principally for the purpose of selling in the near term.

Financial assets at FTVPL, are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. Fair value is determined by using market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

– Level 1: Quoted prices in active markets for identical items (unadjusted)

– Level 2: Observable direct or indirect inputs other than Level 1 inputs

– Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures its investments in quoted shares using the quoted market price.

(c) Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original expected interest rate ("EIR"). The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables (not subject to provisional pricing) and other receivables due in less than 12 months, the Group applies the simplified approach in calculating ECLs, as permitted by IFRS 9. Therefore, the Group does not track changes in credit risk, but instead, recognises a loss allowance based on the financial asset's lifetime ECL at each reporting date.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.

2. Principal Accounting Policies continued

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

(d) Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. This is the same treatment for a financial asset measured at FVTPL.

Financial liabilities

(a) Classification

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables and loans.

(b) Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss and other comprehensive income.

Trade and other payables

After initial recognition, trade and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised, as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

(c) Derecognition

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss and other comprehensive income.

Liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit and loss or other liabilities, as appropriate.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost.

2. Principal Accounting Policies continued

2.10 Tangible fixed assets

The Group holds physical plant and equipment as well as its producing assets which are now classified as tangible fixed assets.

Producing assets

Once the technical feasibility and commercial viability of an exploration and evaluation asset are demonstrated, the project is reclassified as a "Producing asset".

The costs associated with the acquisition, drilling, and equipping of such assets are capitalised and initially stated at cost. Subsequently, successful wells are depleted, net of estimated residual values, using the units-of-production method on a field-by-field basis based upon proved oil and natural gas reserves. The depletion provision is calculated such that the cost of the asset is written off at the same rate as the well is depleted based on reservoir assessments from independent consultants.

Exploration, geological and geophysical costs, delay rentals, and drilling costs of unsuccessful exploratory wells are charged to expense as incurred.

The sale of a partial interest in a proved oil and gas property is accounted for as a normal disposal. The sale of a partial interest in an unproved property is accounted for as a recovery of cost when substantial uncertainty exists as to the recovery of the cost applicable to the interest retained. A gain on the sale is recognised to the extent the sales price exceeds the carrying amount of the unproved property.

Property, plant and equipment

All plant and machinery is stated in the accounts at its cost of acquisition less a provision for depreciation.

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

The principle rate of depreciation used is 25 per cent. per annum.

2.11 Intangible assets

Patent rights

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

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

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

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

Oil and Gas Properties

Exploration and evaluation assets

The Group has acquired numerous leases and mineral rights from third parties on which it has expended further sums in evaluating the assets for technical feasibility and commercial viability. These costs are treated as "exploration and evaluation assets" and are initially recognised at cost, being the purchase cost plus further exploration and evaluation expenditure in accordance with IFRS6.

Subsequent to initial recognition, each asset is assessed for impairment. An impairment provision is made where the carrying value exceeds the assets recoverable amount.

Development costs are excluded from that treatment and are taken directly to the profit and loss account.

2. Principal Accounting Policies continued

Asset Retirement Obligations

The Group records the fair value of a liability for an asset retirement obligation in the period in which it is incurred with a corresponding increase in the carrying amount of the related long-lived asset. Liabilities are required to be accreted to their present value each period, and capitalised costs are depleted on a field-by-field basis using the units-of-production method. This periodic accretion expense is included in depreciation, depletion, amortisation, and accretion in the consolidated and combined statements of operations. Upon settlement of the liability, the Group will settle the obligation against its recorded amount and will record any resulting gain or loss in the consolidated and combined statements of operations.

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

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

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

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

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

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

2.13 Operating leases

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

2.14 Equity

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

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

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

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

2.15 Share-based payments

The Group issued warrants to the initial investors and certain counterparties and advisers in previous periods as well as issuing share options to its US based staff. The Group did not issue any warrants or options during the year or make any other share-based payment.

2. Principal Accounting Policies continued

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

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

2.16 Taxation

Tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.17 Critical accounting judgements and key sources of estimation uncertainty

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

- the carrying value of the Group's investment in intellectual property and patent rights;
- the carrying value of the Group's intangible production, exploration and evaluation assets;
- the carrying value of the investment in the subsidiary;
- the estimation of certain production and sales based taxes.

2. Principal Accounting Policies continued

Carrying value of patents and intellectual property rights

The Group holds certain patent and intellectual property rights. No revenues have yet been generated from these rights and their eventual commercialisation and exploitation is subject to risks inherent in all novel technologies. These include competing technologies and potential failure in marketing or implementation. The crystallisation of any of these risks could have a significant impact on the assessment of the value of the intangible assets. The Directors judgement is that these patents will provide a revenue stream in the future sufficient to support the current carrying value. The carrying value is stated at cost incurred less a provision for amortisation.

Carrying value of the Group's intangible and tangible production, exploration and evaluation assets

The Group holds a number of lease and mining rights. The key assumptions and judgements concerning the carrying value for the assets relate to the continuing progress of the Group's exploitation programmes, which are subject to risks common to all oil and gas businesses. These risks include the potential failure of the projects in development or testing stages and the possible inability to progress projects due to regulatory, manufacturing or intellectual property issues or the lack of available funds or other resources. Furthermore, after production has commenced the carrying value of the assets is stated at cost less a provision designed to write off the cost of the assets over their estimated useful lives based on the rate of depletion of the well reservoir. The depletion assessments are estimates and should the well not remain in production at the levels predicted this could have a significant effect on the correct carrying value of the assets. Reserve estimates are also made which impact various areas of the financial statements (see note 10).

Carrying value of investment in subsidiary

The Company has invested in the subsidiary companies which are not yet profitable or generating positive cash flows. Nonetheless, the subsidiaries have started to generate revenues from the first successful project and the Board is confident in its future prospects. In assessing the recoverability of these projects, the Board makes a series of judgements about their expected success based on the knowledge available. No provision has been made against the investment or possible future costs or losses of the subsidiaries, see Note 12 below.

The estimation of certain production and sales based taxes

The group is responsible for the declaration and payment of various US taxes on the oil and gas produced and sold from its East Denver operations on behalf of all parties involved up until the date that the responsibility as well operator passed to the new majority owner of the wells. The amount of these taxes still payable has yet to be agreed with the relevant taxing authorities and, as such, the group has made an estimate of the full amount due, the calculation of which is considered to be a key accounting estimate.

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

During the financial year, the Group has adopted the following new IFRSs (including amendments thereto) and IFRIC interpretations that became effective for the first time.

Standard	**Effective date, annual period beginning on or after**
Annual Improvements 2014-2016 cycle	1 January 2017/ 1 January 2018
IFRS 9 *Financial instruments*	1 January 2018
IFRS 15 *Revenue from contracts with Customers* including amendments to IFRS 15: *Effective date of IFRS 15.*	1 January 2018
Clarifications to IFRS 15 – *Revenue from contracts with Customers*	1 January 2018
IFRS 2 (amendments) – *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
IFRS 4 (amendments) – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	1 January 2018
IFRIC Interpretation 22 – *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Amendments to IAS 40 – *Transfers of Investment Property*	1 January 2018

Their adoption has not had any material impact on the disclosures or amounts reported in the financial statements.

2. Principal Accounting Policies continued

Standards issued but not yet effective:

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Group and which have not been applied in these financial statements, were in issue but were not yet effective. In some cases these standards and guidance have not been endorsed for use in the European Union.

Standard	Effective date, annual period beginning on or after
IFRS 16 *Leases*	1 January 2019
IFRIC 23 – *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to IFRS 9 – *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to IAS 28 – *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Annual improvements 2015-2017 cycle	1 January 2019
Amendments to IAS 19: *Plan amendment, Curtailment or Settlement*	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
IFRS 17 – *Insurance Contracts*	1 January 2021

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

IFRS16: Leases. This Standard becomes effective for accounting periods commencing on or after 1 January 2019 and will be applied to the Highlands' accounts for the first time in the year ended 31 March 2020. It will result in all leases except those that are short term or of low-value being recognised on the balance sheet as both an asset (the right to use the leased item) and an obligation to pay future rentals. The Group has reviewed all its leasing arrangements that might be covered by this Standard next year to determine the impact from transitioning to IFRS16. The Group has two operating leases, one of which commenced on 1 April 2019, which are considered to fall within this Standard. The total value of those leases is estimated to be £1,258,000 and this sum will be recognised as an asset and liability next year. This represents the Board's best estimate at the time of preparing these financial statements and will be reassessed during the coming financial year.

2.19 Segmental reporting

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

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

All operations and information are reviewed together so that at present there is only one reportable operating segment this year, being oil and gas properties, but with the Group's expansion into new activities, the operating segments will be different in future years.

2.20 Joint Arrangements, Farm-in and Profit Sharing Agreements

The Company is party to a joint arrangement when there is a contractual agreement that sets out the terms of the relationship over the relevant activities of the Company and at least one other party.

The management have a legal degree of control over these joint operating arrangements through Joint Operating Agreements.

The Company classifies its interests in joint arrangements as joint operations: where the Company has both the rights to assets and obligations for the liabilities of the joint arrangement.

The Company accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

The Company accounts for its own assets, liabilities and cash flows measured in accordance with the terms of the production sharing agreement and the accounting treatment reflects the agreement's commercial effect. The Company's revenue and cost of sales include revenues and operating costs associated with the Company's interest.

Notes to the Financial Statements (continued)

3. Revenue

	2019 £	2018 £
Sale of hydrocarbons	1,016,399	2,900,785

The Group's marketing agreement is such that during the year the Group had a single customer.

4. Segment Reporting

In the opinion of the Directors, during the period ended 31 March 2019 the Group only operated in the single business segment of oil and gas development.

5. Operating Loss

	2019 £	2018 £
This is stated after charging		
Depreciation of property, plant and equipment	27,693	13,201
Amortisation of intangible assets	296,149	979,068
Exploration expenditure	173,393	1,148,955
Share-based payments charge	—	—
Lease operating expenses	669,311	734,246
Rent payable under operating lease	65,631	71,606
Auditors' remuneration		
– audit of parent company	45,740	
Current auditor	35,750	—
Predecessor auditor	9,990	37,399
– non-audit services		
audit-related assurance services	—	—
taxation compliance services	—	—
other taxation services	—	—
corporate finance services	—	27,500
Directors' remuneration	547,546	464,756
Staff costs (including Directors)	1,850,987	1,591,008

6. Directors and Staff Costs

The staff costs for the Group, for the year, including Directors, were:

	2019 £	2018 £
Salaries	1,474,418	1,375,170
Healthcare costs	143,834	121,560
Social Security costs	88,901	94,278
	1,707,153	1,591,008

The average number of staff during the year, including Directors, was 13 (2018: 11).

The Directors consider that there are no key management personnel other than the Directors. Management remuneration paid and other benefits supplied to the Directors during the period plus the associated social security costs were as follows:

	2019 £	2018 £
Salary	499,632	420,342
Healthcare costs	47,914	44,414
Social Security costs	25,718	29,997
	573,264	494,753

Notes to the Financial Statements (continued)

7 Loss on Disposal of Intangible Asset

With effect from 30 April 2018, the Group disposed of 49.5 per cent. out of its 57 per cent. interest in the East Denver project. Oil and gas revenues together with share of lease operating expenses the group's both before and after the date of partial sale are accounted for as part of the group's revenues and costs during the year. The Loss on Disposal of Intangible Asset records the difference between the direct proceeds of the sale and the estimated fair value of the proportion sold, after accounting for any amortisation or impairment provisions.

	£
Proceeds from sale	4,024,109
Proportion disposed of	(5,300,287)
Loss on disposal	(1,276,178)

8. Taxation

	2019 £	2018 £
The charge/credit for the period is made up as follows:		
Corporate Taxation on the results for the period		
UK	–	–
Non-UK	–	–
Taxation charge/credit for the period	–	–
A reconciliation of the tax charge/credit appearing in the income statement to the tax credit that would result from applying the standard rate of tax to the results for the period is:		
Loss per accounts	(5,770,724)	(3,976,237)
Tax credit at the standard rate of corporation tax at a combined rate of 23.15%(19%):	(1,336,154)	(755,485)
Impact of costs disallowable for tax purposes	58,010	(126,656)
Impact of temporary timing differences	24,043	(143,855)
Impact of unrelieved tax losses carried forward	1,254,101	1,206,745
Taxation credit for the period (Note 16)	–	–

9. Loss Per Share

The calculation of the loss per share is based on the loss for the financial period after taxation of £5,770,724 (2018: loss £3,976,237) and on the weighted average of 118,250,684 (2018: 95,892,284) ordinary shares in issue during the period.

The options outstanding at 31 March 2019 and 31 March 2018 are considered to be non-dilutive in that their conversion into ordinary shares would not increase the net loss per share. Consequently, the diluted loss per share is equal to the basic loss per share.

10 Tangible Assets

Group	Plant and equipment £	Producing assets £	Total £
Cost			
At 31 March 2018	88,112	—	88,112
Reclassification in year	—	7,065,727	7,065,727
Additions	18,913	521,200	540,113
Disposals	(9,704)	(6,329,856)	(6,339,560)
Translation adjustment	6,546	524,898	531,444
At 31 March 2019	103,867	1,781,969	1,885,836
Depreciation			
At 31 March 2018	14,419	—	14,419
Reclassification in year	—	873,053	873,053
Charge for the year	27,693	225,499	253,192
Disposals	(1,504)	(822,752)	(824,256)
Translation adjustment	1,071	64,858	65,929
At 31 March 2019	41,679	340,658	382,337
Cost			
At 31 March 2017	11,876		11,876
Additions	77,489		77,489
Translation adjustment	(1,253)		(1,253)
At 31 March 2018	88,112		88,112
Depreciation			
At 31 March 2017	2,139		2,139
Charge for the year	13,201		13,201
Translation adjustment	(921)		(921)
At 31 March 2018	14,419		14,419
Net book value			
At 31 March 2017	9,737	—	9,737
At 31 March 2018	73,693	—	73,693
At 31 March 2019	62,188	1,441,311	1,503,499

A report from an independent consultant as at 1 February 2019, the date when all eight wells had commenced production, placed just the 1P reserves of the East Denver site applicable to the Group's part share of the producing wells at 108,830 BBL of oil and 314,586 Mcf of gas. This ignores probable reserves or any potential reserves from the Group's carried interest in future wells.

11. Intangible Assets

Group

	Patent Rights £	Producing assets £	Exploration & evaluation assets £	Total £
Cost				
At 31 March 2018	706,500	7,065,727	2,172,397	9,944,624
Reclassification in year	—	(7,065,727)	—	(7,065,727)
Additions	—	—	905,409	905,409
Disposals	—	—	(242,329)	(242,329)
Translation adjustment	—	—	161,384	161,384
At 31 March 2019	706,500	—	2,996,861	3,703,361
Amortisation and impairment				
At 31 March 2018	200,175	873,053	—	1,073,228
Reclassification in year	—	(873,053)	—	(873,053)
Charge for the year	70,650	—	—	70,650
Disposals	—	—	—	—
Translation adjustment	—	—	—	—
At 31 March 2019	270,825	—	—	270,825
Cost				
At 31 March 2017	706,500	—	4,438,984	5,145,848
Additions	—	1,142,585	4,710,533	5,853,118
Re-classification in the year	—	5,923,143	(5,923,143)	—
Disposals	—	—	(585,951)	(585,951)
Translation adjustment	—	—	(468,027)	(468,027)
At 31 March 2018	706,500	7,065,727	2,172,397	9,944,624
Amortisation and impairment				
At 31 March 2017	129,525	—	14,001	143,526
Re-classification in the year	—	14,001	(14,001)	—
Charge for the year	70,650	908,418	—	979,068
Disposals	—	—	—	—
Translation adjustment	—	(49,366)	—	(49,366)
At 31 March 2018	200,175	873,053	—	1,073,228
Net book value				
At 31 March 2017	576,975	—	4,424,983	5,001,958
At 31 March 2018	506,325	6,192,674	2,172,397	8,871,396
At 31 March 2019	435,675	—	2,996,861	3,432,536

11. Intangible Assets continued

Company

	Patent Rights £
Cost	
At 31 March 2018	706,500
Additions	—
At 31 March 2019	706,500
Amortisation	
At 31 March 2018	200,175
Charge for the year	70,650
At 31 March 2019	270,825
Cost	
At 31 March 2017	706,500
Additions	—
At 31 March 2018	706,500
Amortisation	
At 31 March 2017	129,525
Charge for the year	70,650
At 31 March 2018	200,175
Net book value	
At 31 March 2017	576,975
At 31 March 2018	506,325
At 31 March 2019	435,675

The patent rights included above have finite useful lives estimated to be of 10 years from date of initial acquisition, over which period the assets are amortised. The remaining useful life of these assets is 6.2 years.

During the year the Group reclassified its producing assets from “intangible assets” to “tangible assets”.

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

12. Investment in Subsidiary and Loan to Group Undertaking

Company	2019 £	2018 £
Investment in Subsidiary	15,746,518	15,746,518

12. Investment in Subsidiary and Loan to Group Undertaking continued

Subsidiary Companies:

The Company has five (2018: three) subsidiaries whose principal activity during the year was oil and gas development. All Subsidiary companies are consolidated in the Group's financial statements.

Name	Place of incorporation and operation	Proportion of ownership interest	Loss for the year	Aggregate capital and reserves at 31 March 2019
Highlands Natural Resources Corporation	USA	100%	£(4,051,869)	£6,046,915
Highlands Montana Corporation*	USA	100%	£(192,961)	£(1,201,448)
Highlands Water Corporation*	USA	100%	£(67,86)	£(70,304)
Zoetic Corporation*	USA	100%	£(567)	£(587)
Brent Natural Resources Ltd (dormant)	UK	100%	£nil	£50

*Owned by Highlands Natural Resources Corporation

The registered offices of the four USA based subsidiaries are at 220 Josephine Street, Suite 200, Denver, Colorado 80206, USA.

The registered office of Brent Natural Resources Ltd is 25 Walbrook, London EC4N 8AF, England.

The ownership in all cases is of 100 per cent. of the issued ordinary shares of each company and in all cases represents 100 per cent. of the voting rights.

During the year the Company made further investment in, and loans to, its USA based operating subsidiary Highlands Natural Resources Corporation to fund all the US operations. The loans are repayable upon demand.

The investments in the shares of the subsidiaries are long term holdings and supported by the underlying assets of the subsidiaries. In the Board's opinion, those assets and their future potential are such that no impairment provision is required against the carrying value of the investments in the subsidiaries.

Loan to group undertaking

	Loan at cost	Impairment Provision	Net Total
	£	£	£
At 31 March 2018	37,493	—	37,493
Additions	142,882	—	142,882
At 31 March 2019	180,375	—	180,375

13. Trade & Other Receivables

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Trade receivables	279,242	—	1,262,503	—
Other receivables	21,460	21,459	24,335	21,329
Amount due from subsidiary undertaking	—	180,375	—	—
Prepayments & other debtors	886,112	6,667	1,246,469	6,667
	1,186,814	208,501	2,533,307	27,996

All amounts in trade receivables are due within 3 months. Prepayments & other debtors includes £275,760 (2018: £238,848) which is receivable in more than one year.

13. Trade & Other Receivables continued

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Fair values have been calculated by discounting cash flows at prevailing interest rates. See also Note 24.

The Group applies the IFRS9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. The Group's customer base is of a similar bracket and share the same characteristics, as such these have been treated as one population. The expected lifetime losses are considered to be £nil.

14. Cash & Cash Equivalents

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Cash at bank	1,508,649	1,293,132	602,814	361,690

Cash at bank comprises of balances held by the Group in current bank accounts. The carrying amount of these assets approximates to their fair value.

15. Trade & Other Payables

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Trade payables	150,045	43,207	982,825	41,885
Amount due to subsidiary company	—	50	—	—
Accruals & other payables	1,164,325	109,213	1,730,724	132,476
	1,314,370	152,470	2,713,549	174,361

Trade payables and accruals principally comprise amounts outstanding for trade purchases and continuing costs. The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Fair values have been calculated by discounting cash flows at prevailing interest rates. See also Note 24.

16. Deferred Taxation

No deferred tax asset has been recognised by the Group due to the uncertainty of generating sufficient future profits and tax liability against which to offset the tax losses. Although current tax rates in the USA differ to those in the UK, due to the uncertainty of timing of any available relief and the Corporation tax rates that would be applicable at that time in either the UK or the USA, where the Group's operations principally occur, the Directors have assumed that the applicable tax rate will be the same as the current tax rate applicable in the UK of 20 per cent. Note 8 above sets out the estimated tax losses carried forward and the impact of the deferred tax asset not accounted for.

17. Share Capital

	2019 £	2018 £
Allotted called up and fully paid:		
136,483,080 ordinary 1p shares	1,364,831	5,824,885

(2018: 116,497,700 ordinary 5p shares)

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

On 25 September 2018, the Court approved a re-organisation of the Company's share capital whereby the nominal value of the shares was reduced from 5p to 1p per share. At the same time, the Court approved the elimination of the Company's share premium account. In both cases, the differences were credited to the retained revenue reserves.

17. Share Capital continued

	Number	Par value of shares issued £
At 31 March 2018	116,497,700	5,824,885
11 July 2018 Issue of shares upon exercise of warrants at 12p per share	1,666,667	83,333
25 September 2018 – Court approved re-organisation of share capital, reducing the nominal value of each share from 5p to 1p per share	—	(4,726,574)
20 March 2019 Placing of shares at 8.5p per share	18,318,713	183,187
Total issued in the period	19,985,380	(4,460,054)
Number of shares in issue at 31 March 2019	136,483,080	1,364,831

At 31 March 2019 there were warrants and options outstanding over 29,250,000 unissued ordinary shares (2018: 32,416,667). Details of the options and warrants outstanding are as follows:

Issued	Exercisable from	Exercisable until	Number Outstanding	Exercise price (p)
Warrants				
25 March 2015	Any time until	24 March 2020	27,800,000	5
Options				
1 October 2016	Any time until	30 September 2026	1,000,000	32.75
12 October 2016	Any time until	11 October 2026	250,000	27.75
7 January 2017	Any time until	6 January 2027	200,000	31.50
			1,450,000	
Total			29,250,000	

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

Director	At 31 March 2018	Exercised in the period	At 31 March 2019	Exercise price Pence	Earliest date of exercise	Latest date of exercise
R B Price	23,750,000	—	23,750,000	5p	25/03/15	24/03/20
J M Davies	1,000,000	—	1,000,000	5p	25/03/15	24/03/20
Total	24,750,000	—	24,750,000			

The market price of the shares at the year end was 8.53p per share.

During the year, the minimum and maximum prices were 8.5p and 25.0p per share respectively.

18. Share Premium Account

	2019 £
At 31 March 2018	12,819,639
11 July 2018 Issue of shares upon exercise of warrants at 12p	116,667
25 September 2018 – Court approved re-organisation of share capital, reducing the nominal value of each share from 5p to 1p per share	(12,936,306)
20 March 2019 Placing of shares at 8.5 pence per share	1,373,903
	1,373,903
Less: costs relating to share issues	(97,292)
At 31 March 2019	1,276,611

19. Equity-settled Share-Based Payments Reserve

	2019 £	2018 £
At 31 March 2018	887,541	833,332
On options and warrants granted in the year	—	61,401
Released on exercise of warrants during the year	(61,401)	(7,192)
Released on lapsing of warrants during the year	(33,012)	—
At 31 March 2019	793,128	887,541

The Company did not issue any warrants or options during the year. During the previous year the Company issued warrants and shares to certain advisers as part of their fees. The details of the exercise price and exercise period of warrants and options outstanding at the year end are given in Note 17 above.

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

Options and Warrants	2019 Number	2019 Weighted average exercise price – pence	2018 Number	2018 Weighted average exercise price – pence
Outstanding at the beginning of the period	32,416,667	7.48p	31,470,000	7.30p
Granted during the period	—	—	1,666,667	12.0p
Lapsed during the period	(1,500,000)	25.0p	—	—
Exercised during the period	(1,666,667)	12.0p	(720,000)	10.0p
Outstanding at the period end	29,250,000	6.32p	32,416,667	7.48p
Exercisable at the period end	29,250,000	6.32p	32,416,667	7.48p

The warrants were exercised on 11 July 2018 when the share price was 22.0p. There were no options exercised during the year.

The options and warrants outstanding at the period end have a weighted average remaining contractual life of 1.3 years. The exercise price of the options and warrants outstanding at the period end range from 5p to 32.75p per share. Full details of the exercise price and potential exercise dates are given in Note 17 above.

There were no options or warrants granted during the year.

20. Foreign Currency Translation Reserve

	2019 £	2018 £
Balance at start of period	(1,482,959)	(141,249)
Movement in the year	1,060,393	(1,341,710)
At 31 March 2018	(422,566)	(1,482,959)

21. Capital Commitments

There were no capital commitments at 31 March 2019 or 31 March 2018.

22. Contingent Liabilities

There were no contingent liabilities at 31 March 2019 or 31 March 2018.

23. Commitments under Operating Leases

At 31 March 2019, the Group had an operating lease commitment on its US premises of £75,548 per annum, approximately, (2018: £84,681). The commitment in years 2 – 5 is £148,447 and the total commitment under this operating lease, which runs out in 2 – 5 years, is £223,995 (2018: £313,779).

24. Financial Instruments and Risk Management

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

Financial assets by category

The categories of financial assets included in the balance sheet and the heading in which they are included are as follows:

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Non current assets				
Loan to group undertaking	—	—	—	37,493
Current assets				
Trade and other receivables	829,449	21,459	2,495,495	27,996
Loan to group undertaking	—	180,375	—	—
Cash and cash equivalents	1,508,649	1,293,132	602,814	361,690
Categorised as financial assets measured at amortised cost	2,338,098	1,494,966	3,098,309	427,179

The loan to group undertaking has no fixed repayment date and its future repayment will depend upon the financial performance of the subsidiary.

Included in trade and other receivables are performance bonds amounting to £275,760 (2018: £238,848) relating to the Group's drilling operations which are recoverable after more than 1 year.

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

Financial liabilities by category

The categories of financial liabilities included in the balance sheet and the heading in which they are included are as follows:

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Current liabilities				
Trade and other payables	1,314,370	152,740	2,713,549	174,361
Categorised as financial liabilities measured at amortised cost	1,314,370	152,740	2,713,549	174,361

All amounts are short term and payable in 0 to 9 months.

Credit risk

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

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Trade and other receivables	568,717	21,459	1,005,880	21,329

Capital management

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

24. Financial Instruments and Risk Management continued

Interest rate risk

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

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Bank balances and receivables	1,508,649	1,293,132	602,814	361,690

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

Credit and liquidity risk

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

Currency risk

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

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

	Group 2019 £	Company 2019 £	Group 2018 £	Company 2018 £
Financial assets	1,557,366	183,162	2,820,399	111,457
Financial liabilities	1,342,325	—	2,576,730	—
Net financial assets	215,041	183,162	243,669	111,457

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

	2019 As reported £	if Sterling rose 20% £	if Sterling fell 20% £
Group result for the period	(5,770,724)	(3,970,350)	(8,471,286)
US Dollar denominated net financial assets	4,532,239	3,776,886	5,665,299
Total equity at 31 March 2019	6,317,128	5,531,694	7,495,281

25. Related Party Transactions

During the year the Group has continued to develop the technology jointly owned with Diversion Technologies LLC ("Diversion"), of which R B Price is a director and shareholder. All costs of development have been charged directly to the profit and loss account. From April 2018, the costs chargeable to Diversion in respect of its 25 per cent. of the costs of patent prosecution and product development will be recouped from Diversion together with a profit element from any future joint revenue arising from the patents. As at 31 March 2019 and 31 March 2018, Diversion owed the group $125,548 in respect of previous costs.

26. Events after the Reporting Period

On 1 April 2019, the Group established its cannabidiol ("CBD") business through Zoetic Corporation, its wholly owned vertically integrated CBD operation in Colorado, USA. Zoetic has recruited staff and leased land and facilities for its operations. In addition to growing plants for CBD production, Zoetic also plans to produce feminised hemp seeds for sale to other hemp producers. The Zoetic management team believes that the controlled conditions in the greenhouse, and the supply of Highlands' proprietary nitrogen-hydrogen gaseous fertiliser, has the potential to establish a robust seed-production operation.

On 12 June 2019, the Company allotted and issued a further 5,000,000 ordinary shares upon the exercise of warrants at a price of 8.5 pence per share and allotted and issued a further 1,000,000 ordinary shares following a subscription by members of the Schrader family at a price of 10.0 pence per share. The Schrader family are the owners of Schrader Oil Co., which operates some of the convenience stores that are stocking Zoetic's retail CBD products.

27. Control

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

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