

Financial Review

I am delighted to be able to report to shareholders that the Group has achieved a pre-tax profit for the year of €11.56 million.

Almost €9 million of this profit relates to the gain made on the sale of our non-core underground gas storage interests to Star Energy Group Plc for greatly above the book cost of the assets. The global economic crisis has seen company and asset valuations and hydrocarbon prices falling significantly over the last 12 months, so the timing of your Board's decision in June last year to sell these assets was exemplary.

It is equally as pleasing that the Group has reported a significant increase in both profit and cash flow from its operational activity. While much of this must of course be attributed to the rise in average oil and gas prices, costs have also been reduced and controlled through operational efficiencies.

As a result of these profits from both asset trading and operations, the Company's balance sheet continues to strengthen year on year. In the current financial climate this I believe separates us out from many of our AIM listed peers, allowing us to both carry on with our business pretty much as normal

while also being able to consider the interesting opportunities that are arising as a result of the closure of the equity and debt markets to the weak and the over leveraged. The recommended offer for the remaining shares in ATI Oil Plc that the Group does not already own demonstrates this amply, and will, upon completion, add significantly to our existing Italian reserve and prospective resource base.

A summary of key indicators are listed in the table below.

Results Summary

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000 (Restated)
Revenue	6,954	5,931
Profit before taxation	11,558	30,048
Profit for the year	9,914	20,957
Basic earnings per share on profit for the year	14.1 € cents	29.7 € cents
Diluted earnings per share on profit for the year	13.5 € cents	27.7 € cents
Cash and cash equivalents	34,927	28,929
Other working capital	17,300	15,757
Net assets	63,545	55,277
Total Group distributable reserves	33,023	21,851
Production (million boe)	0.12	0.16
Average revenue, in currency of receipt, per boe:		
Gas	€53.97	€34.95
Oil	\$90.44	\$59.59
Unaudited Net Commercial Oil & Gas Reserve Quantities		
– Proven and Probable reserves (million boe)	76.43	76.55

The results for the Group for the year ending 31 December 2008 show a profit before tax of €11.56 million compared with a profit before tax of €30.05 million for the year ended 31 December 2007. The basic earnings per share is €0.14, compared to €0.30 in 2007.

After adjusting for the one off effect of profits on disposals of tangible assets in both periods, the Group is reporting an increase of €1.40 million in pre-tax profits year on year (€2.61 million versus €1.21 million in 2007).

The major components of this increase in pre-tax profitability of €1.40 million have been:

- an increase of €2.15 million in gross profit, as a result of improved revenues and reductions in both operating costs and the D,D&A charge;
- a decrease of €0.63 million in administrative expenses relating to the non cash effect of share based payments; and
- a decrease of €0.25 million in administrative expenses.

Which were offset by:

- a decrease of €0.72 million in other operating income;
- a decrease of €0.50 million in net finance income;
- an increase of €0.27 million in pre licence and other exploration expenditures written off; other operating income; and
- a decrease of €0.13 million in the (non cash) deemed profit on disposals of associates.

The major contributor to the reported pre-tax profit for the year of €11.56 million was obviously the €8.94 million profit of disposal of assets, which predominantly relates to the gain on the sale of our non-core interests in the Waalwijk underground storage applications to Star Energy Group Plc ("Star").

Whilst a good proportion of the increase of €2.15 million in gross profit can be put down to the significantly higher average oil and gas prices during 2008, I would also like to congratulate our operations team for the significant reduction in operating costs achieved year on year; which is all the more remarkable given the service cost inflation that was being seen in the first half of 2008 as the oil price climbed towards the heady heights of \$147 in July.

Good control over administrative costs has been maintained. Following a significant rise in UK and Dutch staffing levels to support ongoing and anticipated future increased activity levels during 2007, staffing levels have remained fairly stable during 2008. This up front investment in 2007 has

reaped efficiency gains in 2008 with increased timewriting by project dedicated professionals.

The overall result is in line with expectations at the time of the interim results and the April trading update. Excluding the effect of the asset disposals during the year the result was ahead of budget, demonstrating both the Group's continued tight control of its cost base, and the efficiency of its staff, against the backdrop of significant continued growth in activity during 2008 on top of that experienced in 2007.

Given the significant pipeline of opportunities that remain available to the Group within its existing asset base, which will on completion of the acquisition of ATI be further expanded, the Board has decided that it would not be appropriate to propose a dividend at this time.

Production

Actual production net to Northern was 0.12 million barrels of oil equivalent ("boe"), comprising 0.66bcf of gas (2007 – 0.88 bcf) and 6,564 barrels of oil (2007 – 6,743 barrels), with an average price received for gas and oil during 2008 of €53.97 per boe (2007 – €34.95 per boe) and US\$90.44 per barrel (2007 – US\$ 66.32 per barrel) respectively. Oil production from continuing operations decreased by 2.7% (2007 – increased by 3.3%) and with its low operating costs, the Hornedean oilfield remains a profitable operation. Oil production from a second UK oilfield, Avington, commenced in early 2009.

Change In Functional Currency

In line with their responsibilities, the Directors have determined that the Company's functional currency changed from Sterling to the Euro with effect from 1 July 2008.

The Company and Group's financial performance and operations are, and have been, predominantly influenced by three currencies: Euro, Sterling and US Dollars. The decision to move to traditional gas developments, rather than electricity generation, announced on 30 June 2008 and the resultant acceleration of development is considered to be the event that triggered the change in functional currency. European gas is priced in Euro and by prioritising traditional gas developments the Company and Group significantly enhanced the Euro component of current and future revenues and expenditures in the short to medium term. Other business developments around 1 July 2008 also indicated that a change to Euro was appropriate.

Consistent with the change in the Company's, and three of its subsidiaries', functional currency, the Group has also changed its presentation currency from Sterling to the Euro with effect from 1 July 2008. Comparative figures for all 2007 primary

statements, plus the opening 2007 balance sheet have therefore been re-presented in Euro.

The change of the Group's presentation currency has been accounted for in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", and that of the Company's functional currency has been accounted for in accordance with SSAP 20 "Foreign Currency Translation" as the Company's financial statements continue to be prepared in accordance with UK GAAP rather than IFRS.

Further information on the changes to the Group's presentational currency and the Company's functional and presentational currency is detailed in notes 1 and 2 to the financial statements.

Accounting Policies And Prior Year Restatements

Following a review of certain accounting policies by the Board there have been the following changes to accounting policies:

Capitalisation of Salaries:

An amendment to the Group's accounting policy on capitalisation of directly attributable salaries has been made, with salaries capitalised at the subsidiary level no longer to be written back to the income statement to the extent that they have not been recovered from co-venturers. This change brings Northern's policy in line with most of its industry peers and complies with International Financial Reporting Standards. The net effect of this change is to increase consolidated net assets and increase consolidated retained earnings by €1,669,000 as at 1 January 2007.

Share-based payments:

In accordance with IFRS 2 'Share-based payments' the charge to the income statement is to be spread over the period between award and vesting. This change has no effect on reported consolidated net assets, but results in an increase in the share incentive plan reserve and a decrease of €2,244,000 in consolidated retained earnings as at 1 January 2007.

Others:

Other standards and interpretations required to be adopted in the year had no significant impact on the financial statements.

Further details on these policy changes are included within the accounting policy notes starting on page 40 (Group) and page 77 (Company).

With the exception of the changes summarised above the principal accounting policies of the Group remained unchanged during 2008.

Following a review by the Board of certain accounting treatments adopted for the year ended 31 December 2007, a number of restatements to the reported 2007 financial statements have been made. These include inter alia the effects of the change in functional currency and accounting policies referred to above.

A summary of the overall effect of these restatements is provided in note 3 to the financial statements, which also references the reader to the fuller disclosures that are detailed in the other appropriate notes.

Taxation

As highlighted last year, the Group utilised most of its available UK and Dutch tax losses against the elements of the extremely profitable transactions with Dyas B.V. ("Dyas") that crystallised for tax in 2007. This means that the significant earnings announced for this year; the principal constituent of which is the extremely profitable transaction with Star; the Group is once again liable to account for and pay tax on its profitable operations in both the UK and The Netherlands.

However much of the actual charge for the year is as a result of deferred tax movements, whilst the largest component of the tax liability for 2008 is as a result of the crystallisation of some of the Dutch deferred tax liability on the 2007 Dyas transactions. The Group has also recognised movements in certain other deferred tax assets and liabilities within the financial statements as a result of its activity during the period.

There is one proactive government reaction to the economic crisis that I would like to highlight and applaud, which is likely to be of considerable cash flow benefit to Group. The Ministry of Finance of The Netherlands has published an amendment of the Regulation for Depreciation At Will 2001 ("DAW"), that will be applicable for both Dutch corporate income tax and for State Profit Share. Under the changes, E&P companies will for tax purposes be able to depreciate in full the carrying value of qualifying investments over two years, 2009 and 2010, and at up to 50% in each year; rather than on a unit of production basis. Investment in new fixed assets will qualify if the investment is made in 2009 and as long as the asset subject to the investment is in use before 1 January 2012.

For more detailed information on the Group's tax position I refer you to note 11.

Capital Structure

The capital structure of the Group did not change materially during the year.

A total of 260,000 warrants were exercised for cash during the year, raising a total of £31,000. A further 87,478 shares were issued to staff and directors in lieu of salary payments.

The net effect of all the above share issues during 2008 was to raise the total number of ordinary shares in issue by approximately 0.5% year on year.

At the year end there were 7.96 million warrants in issue, with exercise prices in the range of 111.25p to 197p. A total of 1.055 million warrants with exercise prices ranging between 130p and 198p were cancelled during December and 3,0025 million warrants with exercise prices ranging from 67p to 68.5p were issued during the same month. Overall there was therefore a rise of approximately 27.5% year on year in the number of warrants in issue, which represents a continuation of the Board's policy of granting warrants as an incentive to attract, motivate and retain senior management and key personnel.

Debt Financing

With surplus funds and no debt financing for projects, the Group had no external debt during the year.

The current economic maelstrom is being particularly badly felt by companies that have over geared their balance sheets during the "boom" years. Therefore while your Board is keen to have in its armoury some financing to both provide flexibility for growing the business, and for tax efficiency, the finance must not be at any cost. Any facility must be both cost effective and set at an appropriate level to reflect the current economic climate. Good progress is being made on a replacement facility that fits these criteria, and I look forward to reporting to shareholders on this soon. In our view certain banks are very much open for business, but are being rightly more selective with whom they choose to conduct business.

Risk Assessment

The Group's oil and gas activities are subject to a range of financial and operational risks, as described below, which can significantly impact its performance.

Additional details on the financial risks the Group faces are detailed in note 25 to the financial statements, which covers IFRS disclosures on financial instruments.

Oil and Gas Price Risk

Oil and gas sales revenue is subject to energy market price risk – the wild swings in oil and gas prices during 2008 indicate this clearly. The oil price has been considerably more stable in the early

months of 2009, which is to be welcomed, as it is a necessary part of allowing E&P companies to make the long term investment decisions they need.

The Group's oil and gas sales revenue in 2008 comprised oil and gas on long term supply contracts, the vast majority of which is gas sales committed to Gas Terra B.V. (Waalwijk and P12). Given current production levels, it has not been considered appropriate for the Group to enter into any hedging activities – for more see the "Financial Instruments" section below.

Liquidity and Interest Rate Risks

Given the ongoing financial crisis almost every company faces greater liquidity risk at present than it did so a year ago. I am however comforted that as the Group is currently debt free, and has cash (€35 million) and working capital balances (€17 million) totalling approximately €52 million at year end, considerably more than at 31 December 2007, that we are far better positioned than the majority of our peers. With our strengthened balance sheet year on year; we can continue to progress our portfolio as we see fit and seek additional opportunities as they arise. Whilst the previous support of Standard Bank has been allowed to lapse, as described above the Group is well positioned to expand its armoury with an appropriate level of debt at the appropriate time.

Cash forecasts identifying the liquidity requirements of the Group are produced frequently. These are reviewed regularly by management and the Board to ensure that sufficient financial headroom exists for at least a twelve month period. With the Group's significant Netherlands' development programme scheduled for the remainder of 2009 and 2010, the Board is also keen to ensure that there also exists, if required, a sufficient reserve in place to bring the Netherlands' reserves into production. This headroom includes the significant amount of working capital tied up in the Group's balance sheet at year end, a significant proportion of which has already been realised in cash since December following most notably the receipt of back costs from EBN and Shell Italia and the receipt in April of third Strategic Alliance tranche of €4.5 million from Dyas.

In light of the Group's desire to retain flexibility to pursue as aggressively as possible its exploration, appraisal and development portfolio, and to enable selective acquisition opportunities to be considered, the majority of surplus funds remained liquid during the year. The Group continually reviews whether a potential increase in interest income could be derived from a more aggressive strategy with regard to the investment of surplus liquid funds; however; it has been considered in the past that any

potential benefit from such a strategy was limited given current interest rate levels, and would be outweighed by the consequential loss of flexibility in terms of use of the surplus funds. Although the Group has strengthened its cash position year on year, this strategy has been maintained given the much reduced levels of interest available, but also expanded in the light of the banking crisis more towards preservation of capital.

Currency Risk

The majority of capital expenditure in the year was denominated in Euro, the balance being in sterling, and to a lesser extent, US dollars. Up until mid 2006, due to the limited income and expenses denominated in foreign currencies that were not naturally hedged, it was not considered cost effective to manage transactional currency exposure on an active basis. However, following the institutional placing to raise £19 million in May 2006, the majority of which was raised to finance the Group's ongoing Dutch and Italian predominantly Euro based activities, the Board decided that the Group held insufficient Euro and a strategy was outlined to increase exposure to the Euro and reduce exposure to Sterling.

The Company commenced execution of the agreed strategy during July 2006, and over the next six months had converted £12 million into Euro at an average Euro/sterling exchange rate of 1.478. The total of these transactions met the parameters set by the Board and exceeded them in respect of the average rate realised. Few significant foreign currency dealings have therefore required to be transacted since January 2008, and given that the net result of the 2007 Dutch asset transactions has been to significantly increase the Group's Euro exposure no significant additional transactions are contemplated at present.

Following the change in functional and presentational currency to Euro as described above, the Group going forward now has four subsidiaries, plus the Italian branch of Northern Petroleum (UK) Limited, which maintain accounting records denominated in Euro, in line with the Company's current functional currency. A number of the Company's subsidiaries still retain sterling as their functional currency, so movements in the Euro/sterling exchange rate will still affect the Group's balance sheet, with exchange differences that arise on consolidation being taken to reserves. Given the change in functional currency, going forward the impact of currency movements in this respect is anticipated to decrease.

A combination of all these factors has led to a €0.9 million profit on exchange for 2008, although virtually all of this was generated in the first half as a result of the movement in Euro/sterling exchange

rate when the functional currency of the Company was still sterling. The majority of revenues and costs associated with the Group's Dutch and Italian assets remain naturally hedged, however there is the likelihood that Dutch oil revenues, as with the Group's UK oil revenues, will be denominated in US dollars, while the majority of costs incurred on the UK assets will be in sterling, neither of which are the reporting or functional currency of the Company. Consequently exchange gains or losses will continue to be reported within future income statements.

Financial Instruments

In light of the positions as set out above, it was not considered either appropriate or necessary for the Group to enter into any significant hedging activities or trade in any financial instruments, such as derivatives, during the year. This strategy will be subject to further consideration through 2009 given the Group's existing production and the move towards significant additional cash flow as the six Netherlands development assets start to come on stream. Once more significant production levels and cash flow have been achieved, the Group's strategy will be more regularly reviewed in the light of ongoing developments.

Operational Risk

Operational risks include equipment failure, well blowouts, pollution, fire and the consequences of bad weather. Where the Group is project operator of either producing fields, field developments or an exploration drilling programme, it takes increased responsibility for ensuring that all relevant legislation is met, and that all partners have appropriate insurance cover in place. The Group's insurance policies contain overall limits and deductibles, which are reviewed each year prior to policy renewals.

Appointment of Auditors

I would like to formally welcome KPMG Audit Plc ("KPMG") as auditors to the Company and its subsidiaries, and thank them for their input and hard work over the last few months. KPMG were appointed by the Board in December 2008 following a review of the external audit function. Shareholders will have the opportunity to consider the appointment of KPMG as auditors to the Company at the 2009 Annual General Meeting.

I would also like to thank BDO Stoy Hayward LLP both for their services as auditor and for their wider assistance to the Group during the past five years of growth of your Company.

Annual General Meeting Resolutions

Finally I would like to briefly address one of the special resolutions to be proposed by the Board for the next Annual General Meeting ("AGM") which this year is to be held in July.

Shareholders approved at the 2008 AGM a resolution to make market purchases in the Company's own shares. Whilst the Board has chosen not to purchase any of its own shares in the last year, the Company has over the course of 2008 again increased its level of distributable reserves. Therefore the Board would once again like to maintain as much balance sheet flexibility as possible, and with that in mind is proposing to give itself the option to increase shareholder value by making market purchases in the Company's own shares, initially up to a maximum of 4,000,000 shares, which will represent approximately 5% of the share capital expected to be in issue at the date of the AGM. This is the same in percentage terms, but an increase in absolute terms, from the 3,500,000 set last year, after taking into account the approximate 8,000,000 new shares expected to be issued pursuant to the acquisition of ATI. Further information on the terms under which the Company seeks such authorisation will be contained within resolution 5 of the AGM Notice.

No changes are proposed to the Company's Articles of Association this year.

I hope that shareholders will feel able to support this year's resolutions, and trust that there will be the usual excellent level of attendance at AGM.

C J Foss

Finance Director

18 May 2009

Directors and Advisers

Richard Latham MBA

Chairman

Richard Latham was appointed Non-Executive Chairman during June 1999 and has been a member of the board since 1995. He is also Non-Executive Chairman of Strategic Natural Resources Plc and Ascension Holdings Limited. Richard holds an MBA degree from Cranfield and has spent most of his working life in the City – initially as an Investment Manager and for over 26 years with companies in the upstream oil and gas industry. He was formerly Deputy Chairman of Aberdeen Petroleum Plc, Chairman and Managing Director of Claremount Oil and Gas Limited and a Non-Executive Director of Atlantis Resources Limited, a company listed on the London and Toronto Stock Exchanges.

Derek Musgrove M.ENG. , B.SC.

Managing Director

Derek Musgrove has held the position of Managing Director since 1999 and is also the Chairman of PLUS quoted ATI Oil Plc. He had previously held senior managerial or board positions with RTZ Oil & Gas Limited, Candecca Resources Plc, Plascom Plc, Anglo Scandinavian Petroleum Plc and Bass Resources Limited. He was also a consultant to a number of oil and gas companies particularly in the areas of new projects and trading of oil and gas properties, as well as pursuing personal interests in the natural resources sector.

Chris Foss B.SC(ECON), ACA

Finance Director

Chris Foss was appointed Finance Director in August 2005, having been the Group Financial Controller and Company Secretary of Northern since January 2003. He has also been the Finance Director of PLUS quoted ATI Oil Plc since 2004 and is a member of the Institute of Chartered Accountants in England and Wales. Between 1998 and his joining the Company, Chris held various finance positions with, and acted as a consultant to, energy related subsidiaries of GE Capital Corporation, Bechtel Group Inc, United Technologies Corporation and Centrica Plc.

Graham Heard B.SC. , CGEOL FGS

Exploration and Technical Director

Graham Heard was appointed as Exploration and Technical Director in May 2007, having been the Exploration Manager of Northern for the previous four and a half years. He is a former Chairman (1991) of the Petroleum Exploration Society of Great Britain. Graham has over 35 years experience as a petroleum geologist, beginning his career with Arco and then gaining extensive international experience with independents Siebens Oil and Quintana Petroleum. He subsequently held various executive positions with Sovereign Oil & Gas Plc, Neste Production Limited and Sands Oil & Gas Plc.

Jeremy White MA (OXON), FCA

Director

Jeremy White is currently a Non-Executive Director and is Chairman of the Audit and Health and Safety Committees, and a member of the Remuneration and Nomination Committee, having previously been Finance Director until August 2005. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He has worked in the oil industry for over 25 years, and immediately before joining Northern he was UK Group Tax Controller for PetroFina's UK operations.

Anthony Brewer MSI

Director

Anthony Brewer was appointed as a Non-Executive Director during August 2006 and is currently Chairman of the Remuneration and Nomination Committee and a member of the Audit Committee. He has over thirty five years of experience in fund management and stockbroking, both in investment analysis and institutional sales, and has specialist knowledge of the oil and gas sector.

Directors

R H R Latham
Chairman

D R Musgrove
Managing Director

C J Foss
Finance Director

G L Heard
Exploration and Technical Director

J M White
Non-Executive

A N Brewer
Non-Executive

Secretary

C J Foss, ACA

Registered Office

2nd Floor Martin House
5 Martin Lane
London EC4R 0DP
Telephone: 020 7469 2900
Facsimile: 020 7469 2901
E-mail: info@northpet.com

Registered No.

02933545

Legal Form

Public limited company

**Country of Incorporation
of Parent Company**

England

Italy Office

Northern Petroleum (UK) Limited
Viale Trastevere, 249
00153 Rome
Italy

Netherlands Office

Northern Petroleum Nederland B.V.
Lange Voorhout 86, unit S2b
2514 EJ 's Gravenhage
Den Haag
The Netherlands

Independent Auditors

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Bankers

ING Bank N.V.
Toumooveld 6
2511 CX Den Haag
The Netherlands

Lloyds TSB Bank Plc

10 Gresham Street
London EC2V 7AE

Staten Bolwerk 1
2011 MK Haarlem
The Netherlands

UniCredit Banca

Piazza Cavour B
Roma
Italy

Registrars

Neville Registrars
Neville House
Laurel Lane Halesowen
West Midlands B63 3DA

**Nominated Adviser and
Joint Broker**

Jefferies International Limited
Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Joint Broker

Astaire Securities plc
30 Old Broad Street
London EC2N 1HT

Solicitors

Berwin Leighton Paisner
Adelaide House
London Bridge
London EC4R 9HA

Gordons

22 Great James Street
London WC1N 3ES

Public Relations

Bishopsgate Communications Limited
Henry Thomas House
5-11 Worship Street
London EC2A 2BH

Investor Relations

Buchanan Communications Limited
45 Moorfields
London EC2Y 9AE

Directors' Report

The Directors present their report together with the accounts for the year ended 31 December 2008.

Principal Activity and Review of the Business

The Company and its subsidiary companies' principal activities are the exploration, development and production of oil and gas assets. Current activity is mainly carried out in The Netherlands, Italy, UK and Guyane. Furthermore, the Board has considered, and will continue to consider, production, exploration and downstream opportunities in other parts of the world.

A more detailed review of the Group's business and prospects is set out in the Chairman's Statement and Financial Review.

Results and Dividends

The Group has reported a net profit for the year of €9,914,000 (2007 restated: €20,957,000).

The Directors do not recommend payment of a dividend (2007: £Nil).

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Financial Review on pages 4 and 5, and 22 to 25 respectively, and within this Directors' Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 22 to 25, while in addition note 25 to the financial statements includes further detail on the Group's:

- objectives, policies and processes for managing its capital;
- financial risk management objectives;
- details of its financial instruments and hedging activities; and
- its exposures to inter alia foreign exchange risk and liquidity risk.

The Group had cash resources of approximately €35 million and considerable positive working capital at year end, and was and remains today debt free. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully and finance its proposed work programmes despite the more uncertain prevailing economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Directors and their Interests

The Directors of the Company, who all served throughout the year, are listed below. The Directors' beneficial interests in the shares of the Company were:

	At 31 December 2008 (ordinary 5p shares)	At 31 December 2007 (ordinary 5p shares)
A N Brewer	75,000	75,000
C J Foss	20,988	11,828
G L Heard	342,570	15,523
R H R Latham	740,087	725,087
D R Musgrove	950,000	950,000
J M White	138,275	123,275

The Directors have been granted warrants exercisable into shares of the Company. Further details of these interests are shown in the Report on Directors' Remuneration on pages 31 to 33.

Other than as shown above, no Director had any interest in the shares of the Company or any of its subsidiaries at 31 December 2008 or 2007.

Mr C J Foss retires from office in accordance with Article 108 of the Company's Articles and, being eligible, offers himself for re-election.

The Company also maintains Directors' and Officers' insurance for the benefit of directors of all Group companies.

Directors' Interest in Transactions

No Director had, during or at the end of the year, a material interest in any other contract which was significant in relation to the Group's business, except in respect of personal service agreements and warrants.

Employees

The Group seeks to keep employees informed and involved in the operations and progress of the business by means of regular staff meetings by country open to all employees and directors.

The Group operates an equal opportunities policy. The policy provides that full and fair consideration will be given to disabled applications for employment and that existing employees who become disabled will have the opportunity to retrain and continue in employment wherever possible.

Substantial Interests

The following interests appeared in the register as at 11 May 2009:

Name	Shares	% of issued
Chase Nominees Limited	6,385,311	8.98
ABN AMRO Bank NV London Branch	5,321,414	7.48
The Bank of New York (Nominees) Limited	4,154,169	5.84
Barclayshare Nominees Limited	3,730,404	5.24
TD Waterhouse Nominees (Europe) Limited	3,593,595	5.05
L R Nominees Limited	3,332,530	4.68
HSDL Nominees Limited	2,765,562	3.89
Nortrust Nominees Limited	2,614,264	3.67
Cheviot Capital Nominees Limited	2,327,500	3.27

In addition, as at 14 May 2009, the Company has been advised of the following beneficial holdings in accordance with the Transparency Obligations Directive (Disclosure and Transparency Rules) Instrument 2008:

Name	Shares	% of issued
Royal Bank of Scotland Group Plc	5,215,488	7.33
Barclays Plc	3,541,364	5.00
Majedie Asset Management Limited	3,536,000	4.97
Active Capital Trust PLC	2,820,000	3.98
Cavendish Asset Management Limited	2,240,900	3.16
Hugh and Kate Sloane	2,200,000	3.10

Financial Instruments

Details of the financial risk management objectives and policies, and details on the use of financial instruments by the Company and its subsidiary undertakings, are provided in the Financial Review on pages 22 to 25 and in note 25 to the financial statements.

Supplier Payment Policy

It is the Group's policy to negotiate clear and satisfactory arrangements for the payment of suppliers as part of the overall terms and conditions of the supply and to make payment accordingly. At 31 December 2008, the Group had an average of 53 (2007: 17) days purchases outstanding in trade payables.

Communication with Shareholders

The Company provides extensive information about the Group's activities in the Annual Report and Accounts, copies of which are sent to shareholders. Additional copies of this, and the Interim Report, are also available by application to the Company Secretary. The Group is active in communicating with both its institutional and private shareholders and welcomes queries on matters relating to shareholdings and the business of the Group. All shareholders are encouraged to attend the Annual General Meeting, to be held this year in July, at which Directors and senior management are introduced and available for questions. The Company also makes every effort to keep its website as up to date as possible, and has in recent months instituted a regular news bulletin which is made available on the home page of the Company's website.

Auditors

BDO Stoy Hayward LLP resigned as auditors on 10 December 2008 and were replaced by KPMG Audit Plc. In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Disclosure of Information to Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company'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 Company's auditors are aware of that information.

By order of the Board

C J Foss

Secretary

18 May 2009

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

The directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company.

In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report on Directors' Remuneration

Remuneration and Nomination Committee

The Group's Remuneration and Nomination Committee is chaired by A N Brewer and the Committee's other member is J M White. The Committee meets as needs require, but at a minimum of twice a year. Other directors often attend meetings by invitation but are not involved in any matter relating to themselves.

The information in this report has been given on a voluntary basis, as the Company is listed on AIM rather than the Full List, and is therefore not required to provide information that complies fully with Companies Act 1985 requirements.

Remuneration Policy

The Committee makes recommendations to the Board on an overall remuneration package for all directors and senior management. The Committee takes into account Group and individual performance, market value and sector conditions. The Company aims to ensure that pay is set at an appropriate level and is comparable with peer group companies in the independent oil and gas sector.

There are four elements of the remuneration package for directors and senior management:

- basic annual salary or fees;
- benefits in kind;
- bonus scheme; and
- long term incentive plan, i.e. warrants.

Notice Periods

The notice period of Executive directors is eighteen months, while that of Non-Executive directors is nine months.

Basic Salary or Fees

Executive directors are salaried employees, while the remuneration of Non-Executive directors is by way of fees.

Basic salaries or fees are reviewed annually, or when an individual changes position or responsibility. In deciding appropriate remuneration levels, Group and individual performance and market factors are considered.

In addition to basic salary or fees, directors receive certain benefits in kind. Executive directors receive life assurance, critical illness and private medical and dental insurance, while Non-executive directors are only entitled to private medical insurance.

Bonus Scheme

In December 2008 a one year bonus scheme for 2009 was implemented for directors and certain professional employees of the Group. The mechanism used to calculate the bonus is two pronged – a discretionary bonus, based on Company and individual performance targets, on an agreed maximum percentage of each individual's average annual salary for 2009, with a further percentage of average annual salary linked to the share price performance as described below. The average share price for the month of December 2009 is required to exceed the 4 December 2008 share price uplifted by 10%, for any share price element of the bonus calculation to be payable.

Any bonus will be payable in January 2010 and is to be settled 50% in cash with the balance settled by the issue of ordinary shares of the Company, the number of shares being determined by the average mid market price for the first three weeks of January 2010. Any bonus will cease in the event that the individual resigns prior to the settlement date.

Warrants

The Board believes that the attraction, motivation and retention of senior management is central to the Group's success. The ability to grant warrants to key personnel as an incentive is an important and effective means of achieving this objective.

Warrants are also issued to directors. All warrants are issued at a price not lower than the prevailing market price of the Company's shares at the date of issue.

The Remuneration and Nomination Committee will continue to, on at least an annual basis, review the effectiveness of the current scheme.

Report on Directors' Remuneration *continued*

Director's Remuneration

Remuneration earned by directors who served during the year was as follows:

Presented in Euro	Year ended 31 December 2008				Year ended 31 December 2007			
	Salary or fees €'000	Bonus €'000	Other benefits €'000	Total €'000	Salary or fees €'000	Bonus €'000	Other benefits €'000	Total €'000
Executive directors (salaries):								
C J Foss	233	31	11	275	178	95	3	276
G L Heard (appointed May 2007)	233	31	9	273	139*	–	3	142
D R Musgrove	304	43	12	359	263	–	4	267
Non-Executive directors (fees):								
A N Brewer	43	6	2	51	37	–	1	38
R H R Latham	66	9	3	78	56	–	1	57
J M White	45	6	2	53	39	–	1	40
	924	126	39	1,089	712	95	13	820

Presented in GBP (settlement currency)	Year ended 31 December 2008				Year ended 31 December 2007			
	Salary or fees £'000	Bonus £'000	Other benefits £'000	Total £'000	Salary or fees £'000	Bonus £'000	Other benefits £'000	Total £'000
Executive directors (salaries):								
C J Foss	188	25	10	223	141	75	2	218
G L Heard (appointed May 2007)	188	25	7	220	110*	–	2	112
D R Musgrove	245	35	8	288	208	–	3	211
Non-Executive directors (fees):								
A N Brewer	34	5	2	41	29	–	1	30
R H R Latham	53	7	3	63	44	–	1	45
J M White	36	5	2	43	31	–	1	32
	744	102	32	878	563	75	10	648

*The total salary for 2007 of G L Heard was £153,000 (€193,119).

The 2007 bonus for C J Foss included a performance related bonus for 2006 and 2007 of £75,000 (€94,667). This bonus was settled in 2008. The bonuses for 2008 were settled in 2009.

The remuneration of Non-Executive directors includes fees currently set at £2,280 (€3,038) per annum for acting as members of each of the Company's committees.

Additional payments of two times basic salary or fees are due to directors in the event that a single shareholder (or group of shareholders acting in concert) obtains control of more than 29.9% of the Company's ordinary shares and exercises control over the Company or its Board, or seeks to remove the director concerned from office. With effect from 1 January 2009 these payments amount to £514,440 (€649,336) for D R Musgrove, £374,640 (€498,123) for C J Foss, £374,640 (€498,123) for G L Heard, £111,600 (€140,864) for R H R Latham, £76,680 (€96,787) for J M White and £72,120 (€91,031) for A N Brewer.

Warrants held by directors serving at 31 December 2008 were as follows:

	At 1 January 2007 '000	Issued '000	At 1 January 2008 '000	Issued '000	Exercised '000	Cancelled '000	At 31 Dec 2008 '000
A N Brewer:							
At 117.0p (exercisable by 31 October 2011)	150	–	150	–	–	–	150
At 68.5p (exercisable by 31 December 2013)	–	–	–	105	–	–	105
	150	–	150	105	–	–	255
C J Foss:							
At 12.5p (exercisable by 31 July 2011)	200	–	200	–	–	–	200
At 130.0p (exercisable by 31 July 2011)	275	–	275	–	–	–	275
At 68.5p (exercisable by 31 December 2013)	–	–	–	193	–	–	193
	475	–	475	193	–	–	668
G L Heard:							
At 11.25p (exercisable by 31 July 2011)	300	–	300	–	(160)	–	140
At 12.5p (exercisable by 31 July 2011)	100	–	100	–	(100)	–	–
At 130.0p (exercisable by 31 July 2011)	125	–	125	–	–	–	125
At 138.5p (exercisable by 31 December 2012)	–	100	100	–	–	–	100
At 68.5p (exercisable by 31 December 2013)	–	–	–	175	–	–	175
	525	100	625	175	(260)	–	540
R H R Latham:							
At 15.625p (exercisable by 31 July 2011)	120	–	120	–	–	–	120
At 11.25p (exercisable by 31 July 2011)	280	–	280	–	–	–	280
At 130.0p (exercisable by 31 July 2011)	150	–	150	–	–	–	150
At 68.5p (exercisable by 31 December 2013)	–	–	–	105	–	–	105
	550	–	550	105	–	–	655
D R Musgrove:							
At 15.625p (exercisable by 31 July 2011)	250	–	250	–	–	–	250
At 11.25p (exercisable by 31 July 2011)	660	–	660	–	–	–	660
At 130.0p (exercisable by 31 July 2011)	400	–	400	–	–	–	400
At 68.5p (exercisable by 31 December 2013)	–	–	–	280	–	–	280
	1,310	–	1,310	280	–	–	1,590
J M White:							
At 15.625p (exercisable by 31 July 2011)	120	–	120	–	–	–	120
At 11.25p (exercisable by 31 July 2011)	280	–	280	–	–	–	280
At 130.0p (exercisable by 31 July 2011)	150	–	150	–	–	–	150
At 68.5p (exercisable by 31 December 2013)	–	–	–	105	–	–	105
	550	–	550	105	–	–	655
Total	3,560	100	3,660	963	(260)	–	4,363

On the exercise of warrants during the year the directors made aggregate notional gains of £221,000 (€258,000) (2007: £Nil, €Nil); the highest single gain made by an individual director was £117,000 (€148,000) (2007: £Nil, €Nil).

The closing mid-market price of the shares on 31 December 2008 was 66p (2007: 132.5p) and the range of closing mid-market prices during the year was 53p to 164p (2007: 83.5p to 202.5p).

This report was approved by the Board on 18 May 2009 and signed on its behalf by:

A N Brewer

Chairman of the Remuneration and Nomination Committee

Corporate Statement – Health, Safety and the Environment

It is the Company's conviction that it and its service providers must be committed to accident prevention and to preserve the Health and Safety of their employees and any other persons who may come in contact with our operations. The method by which Northern performs its activities will provide optimum protection to the environment in which our operations are conducted.

The Group continues to develop, expand and re-examine its Health and Safety Programme to reflect the operational activities that it undertakes. Northern, as a standard step in planning operations, performs site specific environmental and safety evaluations to minimise risk and ensure the safety of all persons involved.

A recognised HSE consulting group and dedicated specialists have been retained to assist Northern in its growth to further ensure consistency of practice and regular and detailed examination of ongoing HSE needs. In addition the Company's most operationally active subsidiary, Northern Petroleum Nederland B.V. ("NPN") is proud to remain an active member of NOGEP (Netherlands Oil and Gas Exploration and Production Association), which gives NPN access to many services and resources, thereby assisting us in maintaining the safest and most responsible operations possible.

Northern has also embraced new technology to enhance the safety and performance of its operations. NPN successfully used Casing While Drilling ("CWD") technology for the first 780m (2,567 ft) section of the recently drilled Nieuwendijk well. CWD is an innovative technology used for simultaneously drilling and casing a well. The process enables a safer and speedier operation to reach to target depth by eliminating conventional drill string tripping and the associated risks. A Hughes Christensen drillable 12-1/4" EZCase bit was used. This was the longest CWD run with this system in the Eastern Hemisphere, a record which NPN plans to exceed at Tiendeveen this summer.



In background above NDDC rig at Nieuwendijk location – 21,606 total working hours without lost time incidents ("LTI").



Waalwijk control room – as at 1 June 2009 24,266 LTI free hours under the operatorship of NPN.

During the year there were a small number of minor incidents, but no lost time accidents, across the Group's operations.

The Company's commitment is to an HSE performance that our employees and partners can be proud of, establishing us as a good neighbour to society, contributing to sustainable development and earning the confidence of customers, joint venture partners and neighbours.

Independent Auditor's Report to the members of Northern Petroleum Plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Northern Petroleum Plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and for preparing the Parent Company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 30.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information that is cross referred in the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants and Registered Auditors

London

18 May 2009