Regal Petroleum

Press Release

13 September 2019

REGAL PETROLEUM PLC

2019 INTERIM RESULTS

Regal Petroleum plc (the "Company", and with its subsidiaries, the "Group"), the AIM-quoted (RPT) oil and gas exploration and production group with assets in Ukraine, today announces its unaudited results for the six month period ended 30 June 2019.

Highlights

Operations

- Aggregate average daily production from the MEX-GOL, SV and VAS fields over the six month period to 30 June 2019 of 4,192 boepd, which compares with an aggregate average daily production rate of 2,790 boepd during the first half of 2018, an increase of approximately 50%

- Reserves upgrade at VAS field announced in August 2019, nearly doubling proved + probable (2P) reserves to 3.145 MMboe (from 1.80 MMboe)

Finance

- Revenue for the six month period ended 30 June 2019 up 27% to $31.3 million (1H 2018: $24.6 million)

- Operating profit for the period of $13.7 million (1H 2018: $44.5 million, including one-off item of $34.5 million)

- Profit before tax for the first half of 2019 of $13.3 million (1H 2018: $45.0 million, including one-off item of $34.5 million)

- Cash and cash equivalents of $67.8 million at 30 June 2019 (31 December 2018: cash and cash equivalents of $53.2 million), with cash and cash equivalents at 10 September 2019 of $62.0 million

Outlook

- Development work for the remainder of 2019 at MEX-GOL and SV fields: refinement of the geological model; testing and if successful, hook up of MEX-119 well; hydraulic fracturing operations on MEX-120 well; commencement of SV-54 well; planning for further new well in SV field; assessment and workover of existing wells; installation of compression equipment; and continued investment in gas processing facilities, pipeline network and other infrastructure

- Development work for the remainder of 2019 at VAS field: completion of processing and interpretation of new 3D seismic data; development of new geological model; planning for a new well; installation of compression equipment; and continued investment in gas processing facilities, pipeline network and other infrastructure

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This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

For further information, please contact:

Regal Petroleum plc **Tel: 020 3427 3550**
Chris Hopkinson, Chairman
Sergii Glazunov, Chief Executive Officer

Strand Hanson Limited **Tel: 020 7409 3494**
Rory Murphy / Richard Tulloch

Citigate Dewe Rogerson **Tel: 020 7638 9571**
Louise Mason-Rutherford / Elizabeth Kittle

Dmitry Sazonenko, MSc Geology, MSc Petroleum Engineering, Member of AAPG, SPE and EAGE, Director of the Company, has reviewed and approved the technical information contained within this press release in his capacity as a qualified person, as required under the AIM Rules.

Definitions

bbl	barrel
bbl/d	barrels per day
boe	barrel of oil equivalent
boepd	barrel of oil equivalent per day
HSES	health, safety, environment and security
LPG	liquefied petroleum gas
MEX-GOL	Mekhediviska-Golotvshinska
m^3	cubic metre
Mm^3	thousand cubic metres
MMboe	million barrels of oil equivalent
MMscf/d	million standard cubic feet per day
%	per cent
scf	standard cubic feet measured at 20 degrees Celsius and one atmosphere
SV	Svyrydivske
$	United States Dollar
UAH	Ukrainian Hryvnia
VAS	Vasyschevskoye
VED	Vvdenska

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Chairman's Statement

During the first half of 2019, the Group has continued with the development of the MEX-GOL, SV and VAS gas and condensate fields in north-eastern Ukraine, with a solid operational and financial performance during the period. Drilling of the MEX-119 development well, which commenced in February 2019, has now been completed and the well will be tested in the near future, and as announced on 21 August 2019, a reassessment of reserves and resources at the VAS field as at 31 December 2018 resulted in a significant reserves upgrade.

At the MEX-GOL and SV fields, production was reasonably stable during the first half of 2019, with higher production volumes compared with the same period last year, and at the VAS field production was also steady, and significantly higher than during the first half of 2018, following the hook-up of the VAS-10 well in November 2018.

Aggregate average daily production from the MEX-GOL, SV and VAS fields during the first half of 2019 was 4,192 boepd, which compares with an aggregate daily production rate of 2,790 boepd during the first half of 2018, an increase of approximately 50]%.

The Group's financial performance for the six month period ended 30 June 2019, was positive and an improvement on the corresponding half-year period in 2018. During the first half of 2019, the Group's profit before tax was $13.3 million (1H 2018: $45.0 million, which includes a one-off item of $34.5 million), predominantly as a result of improved revenues of $31.3 million (1H 2018: $24.6 million) from higher production volumes offset by lower hydrocarbon prices. Cash generated from operations during the period was also higher at $17.6 million (1H 2018: $13.1 million).

The fiscal and economic situation in Ukraine was reasonably stable during 2019, with a better economic outlook, GDP growth, reduced inflation and stability in the Ukrainian Hryvnia exchange rates. Nevertheless, there are still fiscal and economic stresses in Ukraine and a continued weakness in the Ukrainian banking sector.

The Ukrainian Government has implemented a number of reforms in the oil and gas sector in recent years, which include the deregulation of the gas supply market in late 2015, and more recently, reductions in the subsoil tax rates relating to oil and gas production and a simplification of the regulatory procedures applicable to oil and gas exploration and production activities in Ukraine.

The deregulation of the gas supply market, supported by electronic gas trading platforms and improved pricing transparency, has meant that the market gas prices in Ukraine now broadly correlate with the imported gas prices. During the first half of 2019, gas prices trended lower, reflecting a similar trend in European gas prices, and were lower than in the same period in 2018. Similarly, condensate and LPG prices were also lower by comparison with the first half of 2018.

Board and Management Changes

In June 2019, Bruce Burrows was appointed as Finance Director of the Company, and Oleksiy Zayets was appointed as Chief Financial Officer of the Company's Ukrainian operations.

Outlook

Whilst there are still challenges in the business environment in Ukraine, the situation is improving gradually. After the steady operational performance during the first half of 2019, we are eagerly awaiting the results of the MEX-119 development well and the hydraulic fracturing operations on the MEX-120 well, which are expected in the near future. We are also looking forward to achieving further successes in the development activities planned for the remainder of 2019 and delivering a steadily increasing production and revenue stream in the future.

In conclusion, on behalf of the Board, I would like to thank all of our staff for the continued dedication and support they have shown during the year.

Chris Hopkinson
Chairman
12 September 2019

Chief Executive Officer's Statement

Introduction

The Group continued its good progress at the Ukrainian fields during 2019, with development activity at the MEX-GOL and SV fields including the drilling of the MEX-119 development well, which has now reached its final depth, with testing expected in the near future, the successful workover of the MEX-106 well to renew the production tubing, and hydraulic fracturing operations at the MEX-120. At the VAS field, acquisition of the remaining coverage of 3D seismic over the field was completed in early 2019 and the data acquired is being processed and interpreted. Overall production was steady during the first half of 2019, and significantly higher than in the first half of 2018.

Production

The average daily production of gas, condensate and LPG from the MEX-GOL, SV and VAS fields for the six month period ended 30 June 2019 was as follows:-

Field	**Gas (MMscf/d)**		**Condensate (bbl/d)**		**LPG (bbl/d)**		**Aggregate boepd**	
	1H 2019	1H 2018	**1H 2019**	1H 2018	**1H 2019**	1H 2018	**1H 2019**	1H 2018
MEX-GOL & SV	14.0	9.7	542	340	273	182	**3,203**	2,183
VAS	4.9	3.1	81	38	**-**	-	**989**	607
Total	18.9	12.8	623	378	273	182	**4,192**	2,790

Production rates were higher in the first half of 2019 when compared with the corresponding period in 2018 predominantly due to the successes of the SV-12 and VAS-10 wells in the second half of 2018.

The Group's average daily production for the period from 1 July 2019 to 10 September 2019 from the MEX-GOL and SV field was 12.8 MMscf/d of gas, 519 bbl/d of condensate and 237 bbl/d of LPG (2,935 boepd in aggregate) and from the VAS field was 4.4 MMscf/d of gas and 43 bbl/d of condensate (864 boepd in aggregate).

Operations

The fiscal and economic conditions in Ukraine have continued to improve over the recent period, with good stability in the Ukrainian Hryvnia, reductions in the subsoil tax rates and improvements in the regulatory procedures in the oil and gas sector in Ukraine, although hydrocarbon prices have been trending lower, adversely affecting the Group's realised prices for gas, condensate and LPG.

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At the MEX-GOL and SV fields, the Group continued to work with P.D.F. Limited to utilise their re-evaluation study of these fields, which involved analysis of all available geological, geophysical, petroleum engineering and well performance data. The continuing work included interpretation of newly reprocessed existing 3D seismic data, and utilising this data to update the geological subsurface model of the fields. This work, undertaken in conjunction with P.D.F. Limited, is enabling the Group to refine its strategies for the further development of the fields, including the timing and level of future capital investment required to exploit the hydrocarbon resources.

In early 2017, the Group entered into an agreement with NJSC Ukrnafta, the majority State-owned oil and gas producer, relating to the SV-2 well, which is a suspended well owned by NJSC Ukrnafta located within the Group's SV licence area. Under the agreement, the Group agreed to undertake a workover of the well, which was successful, and resulted in the well being brought back into production in August 2017. Pursuant to the agreement, the gas and condensate produced from the well is sold under an equal net profit sharing arrangement between the Group and NJSC Ukrnafta, with the Group accounting for the hydrocarbons produced and sold from the well as revenue, and the net profit share due to NJSC Ukrnafta being treated as a lease expense in cost of sales.

Following on from the success of the SV-2 well operations, in November 2017, the Group entered into a similar agreement with NJSC Ukrnafta, in relation to the SV-12 well, which is also a suspended well owned by NJSC Ukrnafta located within the SV licence area. The terms of this agreement are fundamentally consistent with the agreement relating to the SV-2 well, including the equal net profit sharing arrangement between the Group and NJSC Ukrnafta. Workover operations were undertaken on this well during the first half of 2018, which were successfully concluded in July 2018 and the well was put on production from two intervals in the B-22 Visean formation.

The MEX-119 development well, which was spudded in February 2019, is targeting production from the B-20 horizon in the Visean formation. The well has now reached its final depth of 4,822 metres, which is slightly shallower than its planned depth, after all targeted horizons were encountered. Testing operations will be undertaken in the near future, and subject to the results thereof, the well will be hooked up to the gas processing facility.

Hydraulic fracturing operations on the MEX-120 well were commenced in September 2019 and results are anticipated in the near future. In addition at the MEX-GOL and SV fields, the Group completed successful workover operations on the MEX-106 well to replace the production tubing, upgraded the gas processing facilities and pipeline network, and undertook remedial work on existing wells.

At the VAS field, the acquisition of new 3D seismic data over the remaining areas of the field was finally completed in January 2019, after the seismic contractor experienced some local access issues which delayed the acquisition field work. The data acquired is now being processed and interpreted.

However, as announced on 12 March 2019, a regulatory issue did arise when the State Service of Geology and Subsoil of Ukraine issued an order for suspension (the "Order") of the production licence for the VAS field. Under the applicable legislation, the Order would lead to a shut-down of production operations at the VAS field, but the Group has issued legal proceedings to challenge the Order, and has obtained a ruling suspending operation of the Order pending a hearing of the substantive issues. The Group does not believe that there are any grounds for the Order, and intends to pursue its challenge to the Order through the Ukrainian Courts. As such, operations continue as usual at the VAS field.

Reserves Update

In the first half of 2019, the Group commissioned DeGolyer and MacNaughton ("D&M") to prepare an updated assessment of the remaining reserves and resources at the VAS field as at 31 December 2018 in order to update the Group's reserves and resources since the previous reserves estimation undertaken by Senergy (GB) Limited ("Senergy") as at 1 January 2016.

The updated assessment of 1.895 MMboe of proved (1P) and 3.145 MMboe of proved + probable (2P) reserves shows a material increase in these categories of remaining reserves from the 2016 Senergy estimates, which were 0.66 MMboe and 1.80 MMboe respectively. These increases reflect a higher level of confidence in the understanding of the subsurface at the field as a result of the new data obtained since 2016.

Further details of the D&M assessment are set out in the Company's announcement dated 21 August 2019.

Outlook

During the remainder of 2019, the Group will continue to develop the MEX-GOL, SV and VAS fields. At the MEX-GOL and SV fields, the development programme includes revision of the geological model utilising the newly interpreted reprocessed seismic data, testing the MEX-119 development well, completing the hydraulic fracturing operations at the MEX-120 well, commencing a new well, SV-54, in the SV field, which is planned to be spudded later in the year, planning for a further well in the SV field, investigating workover opportunities for other existing wells, installation of compression equipment, further upgrading of the gas processing facilities and pipeline network, and remedial and upgrade work on existing wells, pipelines and other infrastructure.

At the VAS field, the processing and interpreting of the new 3D seismic data will be completed, a new geological model will be developed, and planning for a new well will be undertaken. It is also intended to undertake further evaluation of the VED area of the licence, which appears highly prospective on the current 2D seismic data and will benefit from the improved imaging of the new 3D seismic data. Work is also planned to install compression equipment, and upgrade the gas processing facilities, pipeline network and other infrastructure.

There has also been encouraging new legislation relating to the oil and gas sector in Ukraine, demonstrating the Ukrainian Government's stated intention to promote and support the domestic oil and gas production industry. These new measures include reductions in the subsoil taxes applicable to the production of hydrocarbons, which became effective for gas production from new wells drilled after 1 January 2018 and came into effect for condensate production from all wells from 1 January 2019. Furthermore, new legislation was introduced last year to simplify a number of the regulatory procedures relating to oil and gas exploration and production activities in Ukraine.

These measures, and the general improvement in the business climate in Ukraine, are encouraging and supportive of the independent oil and gas producers in Ukraine.

Finally, I would like to add my thanks to all of our staff for the continued hard work and dedication they have shown during this year.

Sergii Glazunov
Chief Executive Officer

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Finance Review

The Group maintained a solid financial performance during the first half of 2019, broadly consistent with the second half of 2018. The underlying operating performance was, however, a significant improvement on the comparative period of the first half of 2018. The performance in the first half of 2018 did however benefit significantly from a $34.5 million impairment reversal. Excluding this impairment reversal impact, the operating profit during the first half of 2019 was higher at $13.7 million (1H 2018: $10.1 million), mainly as a result of improved revenue of $31.3 million (1H 2018: $24.6 million) derived from higher production volumes offset by lower hydrocarbon prices.

Profit before tax during the period was also higher at $13.3 million (1H 2018: $10.5 million, excluding $34.5 million impairment reversal). Cash generated from operations was higher at $17.6 million (1H 2018: $13.1 million).

The market price in Ukraine for gas broadly correlates to the price of imported gas, which generally reflects trends in European gas prices, which declined during the first half of 2019.

For the six-month period ended 30 June 2019, the average realised gas, condensate and LPG prices were $256/Mm^3 (UAH6,921/Mm^3), $54/bbl and $52/bbl respectively (1H 2018: $280/Mm^3 (UAH7,491/Mm^3), $69/bbl and $73/bbl respectively).

During the period from 1 July 2019 to 10 September 2019, the average realised gas, condensate and LPG prices were $173/Mm^3 (UAH4,402/Mm^3), $59/bbl and $54/bbl respectively.

The subsoil tax rates applicable to gas production were stable during the period at 29% for gas produced from deposits at depths above 5,000 metres and 14% for gas produced from deposits below 5,000 metres, but reductions in the subsoil rates applicable to new wells and to condensate production have been implemented, under which (i) for new wells drilled after 1 January 2018, the subsoil tax rates were reduced from 29% to 12% for gas produced from deposits at depths above 5,000 metres and from 14% to 6% for gas produced from deposits below 5,000 metres for the period between 2018 and 2022, and (ii) with effect from 1 January 2019 and applicable to all wells, the subsoil tax rates for condensate were reduced from 45% to 31% for condensate produced from deposits above 5,000 metres and from 21% to 16% for condensate produced from deposits below 5,000 metres.

In addition, with effect from 1 January 2019, a transmission tariff of UAH91.87/Mm^3 ($3.23/Mm^3) for use of the Ukrainian national pipeline system became applicable to oil and gas producers in Ukraine, including the Group.

In the six-month period ended 30 June 2019, cost of sales was higher at $17.3 million (1H 2018: $12.8 million), mainly due to higher lease expenses relating to the profit share in respect of the SV-12 well and the introduction of the transmission tariff, which was partially offset by the decrease in the subsoil tax relating to the production of condensate.
Despite the increased operational activity, administrative expenses for the first half of 2019 at $2.9 million were consistent with the comparative period (1H 2018: $2.9 million).

The tax charge for the six month period ended 30 June 2019 of $3.4 million (1H 2018: $6.1 million charge) comprises a current tax charge of $1.7 million (1H 2018: $2.1 million charge) and a deferred tax charge of $1.7 million (1H 2018: $4.0 million charge).

At 30 June 2019, the Group derecognised a deferred tax asset of $2.1 million due to losses expected in the foreseeable future.

A deferred tax asset relating to the development and production asset at the MEX-GOL and SV fields of $1.4 million (31 December 2018: $1.1 million) was recognised at 30 June 2019 on the tax effect of the temporary differences between the carrying value of the development and production asset at the MEX-GOL and SV fields and its tax base.

A deferred tax liability relating to the development and production asset at the VAS field of $0.3 million (31 December 2018: $0.5 million) was recognised at 30 June 2019 on the tax effect of the temporary differences between the carrying value of the development and production asset at the VAS field and its tax base.

Capital investment of $6.7 million reflects investment in the Group's oil and gas development and production assets during the period (1H 2018: $5.0 million), primarily relating to the expenditure associated with the drilling of the MEX-119 well.

Cash and cash equivalents held at 30 June 2019 were $67.8 million (31 December 2018: $53.2 million cash and cash equivalents). The Group's cash and cash equivalents balance at 10 September 2019 was $62 million, held as to $20.4 million equivalent in Ukrainian Hryvnia, $41.6 million equivalent predominantly in US Dollars, Euros and Pounds Sterling.

Since early 2014, the Ukrainian Hryvnia has devalued significantly against the US Dollar, falling from UAH8.3/$1.00 on 1 January 2014 to UAH26.2/$1.00 on 30 June 2019, which resulted in substantial foreign exchange translation losses for the Group over that period, and in turn adversely impacted the carrying value of the MEX-GOL and SV asset due to the translation of two of the Group's subsidiaries from their functional currency of Ukrainian Hryvnia to the Group's presentation currency of US Dollars. However, in the first half of 2019, the exchange rate between the Ukrainian Hryvnia and the US Dollar has been reasonably stable, averaging UAH26.9/$1.00 during the period (average rate during 1H 2018: UAH26.8/$1.00). Nevertheless, further devaluation of the Ukrainian Hryvnia against the US Dollar may affect the carrying value of the Group's assets in the future.

Cash from operations has funded the capital investment during the year, and the Group's current cash position and positive operating cash flow are the sources from which the Group plans to fund the development programmes for its assets in the remainder of 2019.

Bruce Burrows
Finance Director

Principal Risks and Uncertainties

The Group has a risk evaluation methodology in place to assist in the review of the risks across all material aspects of its business. This methodology highlights external, operational and technical, financial and corporate risks, and assesses the level of risk and potential consequences. It is periodically presented to the Audit Committee and the Board for review, to bring to their attention potential risks and, where possible, propose mitigating actions. Key risks recognised and mitigation factors are detailed below:

Risk	**Mitigation**
External risks	
Risk relating to Ukraine	
Ukraine is an emerging market and as such, the Group is exposed to greater regulatory, economic and political risks than it would be in other jurisdictions. Emerging economies are generally subject to a volatile political and economic environment, which makes them vulnerable to market downturns elsewhere in the world, and could adversely impact the Group's ability to operate in the market.	The Group minimises this risk by continuously monitoring the market in Ukraine and by maintaining a strong working relationship with the Ukrainian regulatory authorities. The Group also maintains a significant proportion of it cash holdings in international banks outside Ukraine.
Regional conflict	
Ukraine continues to have a strained relationship with Russia, following Ukraine's agreement to join a free trade area with the European Union, which resulted in the implementation of mutual trade restrictions between Russia and Ukraine on many key products. Further, the conflict in parts of eastern Ukraine has not been resolved to date, and Russia continues to occupy Crimea. This conflict has put further pressure on relations between Ukraine and Russia, and the political tensions have had an adverse effect on the Ukrainian financial markets, hampering the ability of Ukrainian companies and banks to obtain funding from the international capital and debt markets. This strained relationship between Russia and Ukraine has also resulted in disputes and interruptions in the supply of gas from Russia.	As the Group has no assets in Crimea or the areas of conflict in the east of Ukraine, nor do its operations rely on sales or costs incurred there, the Group has not been directly affected by the conflict. However, the Group continues to monitor the situation and endeavours to procure its equipment from sources in other markets. The disputes and interruption to the supply of gas from Russia has indirectly encouraged Ukrainian Government support for the development of the domestic production of hydrocarbons since Ukraine imports a significant proportion of its gas, which has resulted in legislative measures to improve the regulatory requirements for hydrocarbon extraction in Ukraine.
Banking system in Ukraine	
The banking system in Ukraine has been under great strain in recent years due to the weak level of capital, low asset quality caused by the economic situation, currency depreciation, changing regulations and other economic pressures generally, and so the risks associated with the banks in Ukraine have been significant, including in relation to the banks with which the Group has operated bank accounts. However, following remedial action imposed by the National Bank of Ukraine, Ukraine's banking system has improved moderately. Nevertheless, Ukraine continues to be supported by funding from the International Monetary Fund under a 14-month Stand-By Arrangement aggregating $3.9 billion approved in December 2018, which replaced a previous funding programme from the International Monetary Fund. An initial tranche of $1.4 billion has	The creditworthiness and potential risks relating to the banks in Ukraine are regularly reviewed by the Group, but the geopolitical and economic events since 2013 in Ukraine have significantly weakened the Ukrainian banking sector. In light of this, the Group has taken and continues to take steps to diversify its banking arrangements between a number of banks in Ukraine. These measures are designed to spread the risks associated with each bank's creditworthiness, and the Group endeavours to use banks that have the best available creditworthiness. Nevertheless, and despite some recent improvements, the Ukrainian banking sector remains weakly capitalised and so the risks associated with the banks in Ukraine remain significant, including in relation to the banks with which the Group operates bank accounts. As a consequence, the Group also maintains a significant proportion of its

been disbursed, and the disbursement of further tranches is dependent on semi-annual reviews of the status of fiscal, economic and regulatory reforms in Ukraine.	cash holdings in international banks outside Ukraine.
Geopolitical environment in Ukraine	
Although there have been some improvements in recent years, there has not been a final resolution of the political, fiscal and economic situation in Ukraine and its ongoing effects are difficult to predict and likely to continue to affect the Ukrainian economy and potentially the Group's business. Whilst not materially affecting the Group's production operations, the instability has disrupted the Group's development and operational planning for its assets.	The Group continually monitors the market and business environment in Ukraine and endeavours to recognise approaching risks and factors that may affect its business. In addition, the involvement of Lovitia Investments Limited, as the indirect majority shareholder with extensive experience in Ukraine, is considered helpful to mitigate such risks.
Operational and technical risks	
Health, Safety, Environment and Security ("HSES")	
The oil and gas industry, by its nature, conducts activities which can cause health, safety, environmental and security incidents. Serious incidents can not only have a financial impact but can also damage the Group's reputation and the opportunity to undertake further projects.	The Group maintains an HSES management system and requires that management, staff and contractors adhere to this system. The system ensures that the Group meets Ukraine legislative standards in full and achieves international standards to the maximum extent possible.
Industry risks	
The Group is exposed to risks which are generally associated with the oil and gas industry. For example, the Group's ability to pursue and develop its projects and development programmes depends on a number of uncertainties, including the availability of capital, seasonal conditions, regulatory approvals, gas, oil, condensate and LPG prices, development costs and drilling success. As a result of these uncertainties, it is unknown whether potential drilling locations identified on proposed projects will ever be drilled or whether these or any other potential drilling locations will be able to produce gas, oil or condensate. In addition, drilling activities are subject to many risks, including the risk that commercially productive reservoirs will not be discovered. Drilling for hydrocarbons can be unprofitable, not only due to dry holes, but also as a result of productive wells that do not produce sufficiently to be economic. In addition, drilling and production operations are highly technical and complex activities and may be curtailed, delayed or cancelled as a result of a variety of factors.	The Group has well qualified and experienced technical management staff to plan and supervise operational activities. In addition, the Group engages with suitably qualified local and international geological, geophysical and engineering experts and contractors to supplement and broaden the pool of expertise available to the Group. Detailed planning of development activities is undertaken with the aim of managing the inherent risks associated with oil and gas exploration and production, as well as ensuring that appropriate equipment and personnel are available for the operations, and that local contractors are appropriately supervised.
Production of hydrocarbons	
Producing gas and condensate reservoirs are generally characterised by declining production rates which vary depending upon reservoir characteristics and other factors. Future production of the Group's gas and condensate reserves, and therefore the Group's cash flow and income, are highly dependent on the Group's success in operating existing producing wells, drilling new production wells and efficiently developing and exploiting any reserves, and finding or acquiring additional reserves. The Group may not be able to develop, find or acquire	In 2016, the Group engaged external technical consultants to undertake a comprehensive review and re-evaluation study of the MEX-GOL and SV fields in order to gain an improved understanding of the geological aspects of the fields and reservoir engineering, drilling and completion techniques, and the results of this study and further planned technical work is being used by the Group in the future development of these fields. In addition, an evaluation study was undertaken on the VAS field prior to its acquisition in 2016 and this was updated in 2019. The

reserves at acceptable costs. The experience gained from drilling undertaken to date highlights such risks as the Group targets the appraisal and production of these hydrocarbons.	Group has established an ongoing relationship with such external technical consultants to ensure that technical management and planning is of a high quality in respect of all development activities on the Group's fields.
Risks relating to further development and operation of the Group's gas and condensate fields in Ukraine	
The planned development and operation of the Group's gas and condensate fields in Ukraine is susceptible to appraisal, development and operational risk. This could include, but is not restricted to, delays in delivery of equipment in Ukraine, failure of key equipment, lower than expected production from wells that are currently producing, or new wells that are brought on-stream, problematic wells and complex geology which is difficult to drill or interpret. The generation of significant operational cash is dependent on the successful delivery and completion of the development and operation of the fields.	The Group's technical management staff, in consultation with its external technical consultants, carefully plan and supervise development and operational activities with the aim of managing the risks associated with the further development of the Group's fields in Ukraine. This includes detailed review and consideration of available subsurface data, utilisation of modern geological software, and utilisation of engineering and completion techniques developed for the fields. With operational activities, the Group ensures that appropriate equipment and personnel is available for the operations, and that operational contractors are appropriately supervised. In addition, the Group performs a review of its oil and gas assets for impairment on an annual basis, and considers whether an assessment of its oil and gas assets by a suitably qualified independent assessor is appropriate or required.
Drilling and workover operations	
Due to the depth and nature of the reservoirs in the Group's fields, the technical difficulty of drilling or re-entering wells in the Group's fields is high, and this and the equipment limitations within Ukraine, can result in unsuccessful or lower than expected outcomes for wells.	The utilisation of detailed sub-surface analysis, careful well planning and engineering design in designing work programmes, along with appropriate procurement procedures and competent on-site management, aims to minimise these risks.
Maintenance of facilities	
There is a risk that production or transportation facilities can fail due to non-adequate maintenance, control or poor performance of the Group's suppliers.	The Group's facilities are operated and maintained at standards above the Ukraine minimum legal requirements. Operations staff are experienced and receive supplemental training to ensure that facilities are properly operated and maintained. Service providers are rigorously reviewed at the tender stage and are monitored during the contract period.
Financial risks	
Exposure to cash flow and liquidity risk	
There is a risk that insufficient funds are available to meet the Group's development obligations to commercialise the Group's oil and gas assets. Since a significant proportion of the future capital requirements of the Group is expected to be derived from operational cash generated from production, including from wells yet to be drilled, there is a risk that in the longer term, insufficient operational cash is generated, or that additional funding, should the need arise, cannot be secured.	The Group maintains adequate cash reserves and closely monitors forecasted and actual cash flow, as well as short and longer-term funding requirements. The Group does not currently have any loans outstanding, internal financial projections are regularly made based on the latest estimates available, and various scenarios are run to assess the robustness of the liquidity of the Group. However, as the risk to future capital funding is inherent in the oil and gas exploration and development industry and reliant in part on future development success, it is difficult for the Group to take any other measures to further mitigate this risk, other than tailoring its development activities to its available capital funding from time to time.

Ensuring appropriate business practices	
The Group operates in Ukraine, an emerging market, where certain inappropriate business practices may, from time to time occur, such as corrupt business practices, bribery, appropriation of property and fraud, all of which can lead to financial loss.	The Group maintains anti-bribery and corruption policies in relation to all aspects of its business, and ensures that clear authority levels and robust approval processes are in place, with stringent controls over cash management and the tendering and procurement processes. In addition, office and site protection is maintained to protect the Group's assets.
Hydrocarbon price risk	
The Group derives its revenue principally from the sale of its Ukrainian gas, condensate and LPG production. These revenues are subject to commodity price volatility and political influence. A prolonged period of low gas, condensate and LPG prices may impact the Group's ability to maintain its long-term investment programme with a consequent effect on growth rate, which in turn may impact the share price or any shareholder returns. Lower gas, condensate and LPG prices may not only decrease the Group's revenues per unit, but may also reduce the amount of gas, condensate and LPG which the Group can produce economically, as would increases in costs associated with hydrocarbon production, such as subsoil taxes and royalties. The overall economics of the Group's key assets (being the net present value of the future cash flows from its Ukrainian projects) are far more sensitive to long term gas, condensate and LPG prices than short-term price volatility. However, short-term volatility does affect liquidity risk, as, in the early stage of the projects, income from production revenues is offset by capital investment.	The Group sells a proportion of its hydrocarbon production through long-term offtake arrangements, which include pricing formulae so as to ensure that it achieves market prices for its products, as well utilising the electronic market platforms in Ukraine to achieve market prices for its remaining products. However, hydrocarbon prices in Ukraine are implicitly linked to world hydrocarbon prices and so the Group is subject to external price trends.
Currency risk	
Since the beginning of 2014, the Ukrainian Hryvnia has significantly devalued against major world currencies, including the US Dollar, where it has fallen from UAH8.3/$1.00 on 1 January 2014 to UAH26.2/$1.00 on 30 June 2019, although it was relatively stable during 2019. This devaluation was a significant contributor to the imposition of the banking restrictions by the National Bank of Ukraine over recent years. In addition, the geopolitical events in Ukraine over recent years, are likely to continue to impact the valuation of the Ukrainian Hryvnia against major world currencies. Further devaluation of the Ukrainian Hryvnia against the US Dollar will affect the carrying value of the Group's assets.	The Group's sales proceeds are received in Ukrainian Hryvnia, and the majority of the capital expenditure costs for the current investment programme will be incurred in Ukrainian Hryvnia, thus the currency of revenue and costs are largely matched. In light of the previous devaluation and volatility of the Ukrainian Hryvnia against major world currencies, and since the Ukrainian Hryvnia does not benefit from the range of currency hedging instruments which are available in more developed economies, the Group has adopted a policy that, where possible, funds not required for use in Ukraine be retained on deposit in the United Kingdom, principally in US Dollars.
Counterparty and credit risk	
The challenging political and economic environment in Ukraine means that businesses can be subject to significant financial strain, which can mean that the Group is exposed to increased counterparty risk if counterparties fail or default in their contractual obligations to the Group, including in relation to the sale of its hydrocarbon production, resulting in financial loss to the Group.	The Group monitors the financial position and credit quality of its contractual counterparties and seeks to manage the risk associated with counterparties by contracting with creditworthy contractors and customers. Hydrocarbon production is sold on terms that limit supply credit and/or title transfer until payment is received.

Financial markets and economic outlook	
The performance of the Group is influenced by global economic conditions and, in particular, the conditions prevailing in the United Kingdom and Ukraine. The economies in these regions have been subject to volatile pressures in recent periods, with the global economy having experienced a long period of difficulties, and more particularly the events that have occurred in Ukraine over recent years. This has led to extreme foreign exchange movements in the Ukrainian Hryvnia, high inflation and interest rates, and increased credit risk relating to the Group's key counterparties.	The Group's sales proceeds are received in Ukrainian Hryvnia and a significant proportion of investment expenditure is made in Ukrainian Hryvnia, which minimises risks related to foreign exchange volatility. However, hydrocarbon prices in Ukraine are implicitly linked to world hydrocarbon prices and so the Group is subject to external price movements. The Group holds a significant proportion of its cash reserves in the United Kingdom, mostly in US Dollars, with reputable financial institutions. The financial status of counterparties is carefully monitored to manage counterparty risks. Nevertheless, the risks that the Group faces as a result of these risks cannot be predicted and many of these are outside of the Group's control.
Corporate risks	
Ukraine production licences	
The Group operates in a region where the right to production can be challenged by State and non-State parties. In 2010, this manifested itself in the form of a Ministry Order instructing the Group to suspend all operations and production from its MEX-GOL and SV production licences, which was not resolved until mid-2011. In 2013, new rules relating to the updating of production licences led to further challenges being raised by the Ukrainian authorities to the production licences held by independent oil and gas producers in Ukraine, including the Group, which may result in requirements for remediation work, financial penalties and/or the suspension of such licences, which, in turn, may adversely affect the Group's operations and financial position. In March 2019, a Ministry Order was issued instructing the Group to suspend all operations and production from its VAS production licence. The Group is challenging this Order through legal proceedings, during which production from the licence is continuing, but this matter remains unresolved. All such challenges affecting the Group have thus far been successfully defended through the Ukrainian legal system. However, the business environment is such that these types of challenges may arise at any time in relation to the Group's operations, licence history, compliance with licence commitments and/or local regulations. In addition, these licences carry ongoing compliance obligations, which if not met, may lead to the loss of a licence.	The Group ensures compliance with commitments and regulations relating to its production licences through Group procedures and controls or, where this is not immediately feasible for practical or logistical considerations, seeks to enter into dialogue with the relevant Government bodies with a view to agreeing a reasonable time frame for achieving compliance or an alternative, mutually agreeable course of action. Work programmes are designed to ensure that all licence obligations are met and continual interaction with Government bodies is maintained in relation to licence obligations and commitments.
Extension of MEX-GOL and SV licences	
The Group's production licences for the MEX-GOL and SV fields currently expire in 2024. However, in the estimation of its reserves, it is assumed that licence extensions will be granted in accordance with current Ukrainian legislation and that consequently the fields' development will continue until the end of the fields' economic life in 2038 for the MEX-GOL	The Group monitors legislation in Ukraine which is likely to affect its licences and the obligations associated therewith, and ensures that its licence compliance obligations are monitored and maintained as such compliance is a likely to be a factor in the extension of the licences in 2024.

field and 2042 for the SV field. Despite such legislation, it is possible that licence extensions will not be granted, which would affect the achievement of full economic field development and consequently the carrying value of the Group's MEX-GOL and SV asset in the future.	
Risks relating to key personnel	
The Group's success depends upon skilled management as well as technical expertise and administrative staff. The loss of service of critical members from the Group's team could have an adverse effect on the business.	The Group periodically reviews the compensation and contractual terms of its staff. In addition, the Group has developed relationships with a number of technical and other professional experts and advisers, who are used to provided specialist services as required.

Directors Responsibility Statement

The Directors confirm that, to the best of their knowledge:-

a) the unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 as adopted by the European Union; and

b) these unaudited interim results include:

  (i) a fair review of the information required (i.e. an indication of important events and their impact and a description of the principal risks and uncertainties for the remaining six months of the financial year); and

  (ii) a fair review of the information required on related party transactions.

A list of current Directors is maintained on the Group's website, www.regalpetroleum.com.

Regal Petroleum

Press Release

Condensed Interim Consolidated Income Statement

	Note	**6 months ended 30 Jun 19 (unaudited) $000**	6 months ended 30 Jun 18 (unaudited) $000
Revenue	4	**31,273**	24,643
Cost of sales	5	**(17,347)**	(12,753)
Gross profit		**13,926**	11,890
Administrative expenses		**(2,857)**	(2,893)
Reversal of impairment of property, plant and equipment		**-**	34,469
Other operating gains, (net)		**2,619**	1,063
Operating profit		**13,688**	44,529
Finance income		**516**	541
Finance costs		**(220)**	(72)
Net impairment gains on financial assets		**11**	34
Loss on disposal of subsidiary	1	**(115)**	-
Other losses, (net)		**(625)**	(54)
Profit before taxation		**13,255**	44,978
Income tax expense	6	**(3,368)**	(6,119)
Profit for the period		**9,887**	38,859
Earnings per share (cents)			
Basic and diluted	7	**3.1c**	12.1c

The Notes set out below are an integral part of these unaudited condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

	6 months ended 30 Jun 19 (unaudited) $000	6 months ended 30 Jun 18 (unaudited) $000
Profit for the period	**9,887**	38,859
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Equity – foreign currency translation	**4,919**	2,731
Items that will not be subsequently reclassified to profit or loss:		
Re-measurements of post-employment benefit obligations	**-**	-
Total other comprehensive income	**4,919**	2,731
Total comprehensive income for the period	**14,806**	41,590

The Notes set out below are an integral part of these unaudited condensed interim consolidated financial statements.

Condensed Interim Consolidated Balance Sheet

	Note	**30 Jun 19 (unaudited) $000**	31 Dec 18 (audited) $000
Assets			
Non-current assets			
Property, plant and equipment	8	**56,390**	50,192
Intangible assets	9	**4,930**	4,880
Right-of-use assets	3	**1,075**	-
Corporation tax receivable		**19**	27
Deferred tax asset	6	**1,364**	3,283
		63,778	58,382
Current assets			
Inventories		**2,527**	1,605
Trade and other receivables	10	**4,644**	10,130
Cash and cash equivalents	12	**67,809**	53,222
		74,980	64,957
Total assets		**138,758**	123,339
Liabilities			
Current liabilities			
Trade and other payables		**(4,208)**	(4,836)
Lease liabilities	3	**(405)**	-
Corporation tax payable		**(245)**	(1,297)
		(4,858)	(6,133)
Net current assets		**70,122**	58,824
Non-current liabilities			
Provision for decommissioning	11	**(4,542)**	(3,137)
Lease liabilities	3	**(681)**	-
Defined benefit liability		**(490)**	(468)
Deferred tax liability	6	**(284)**	(504)
		(5,997)	(4,109)
Total liabilities		**(10,855)**	(10,242)
Net assets		**127,903**	113,097
Equity			
Called up share capital		**28,115**	28,115
Share premium account		**555,090**	555,090
Foreign exchange reserve		**(97,342)**	(102,261)
Other reserves		**4,273**	4,273
Accumulated losses		**(362,233)**	(372,120)
Total equity		**127,903**	113,097

The Notes set out below are an integral part of these unaudited condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

	Called up share capital $000	**Share premium account $000**	**Merger reserve $000**	**Capital contributions reserve $000**	**Foreign exchange reserve* $000**	**Accumulated losses $000**	**Total equity $000**
As at 1 January 2019 (audited)	**28,115**	**555,090**	**(3,204)**	**7,477**	**(102,261)**	**(372,120)**	**113,097**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**9,887**	**9,887**
Other comprehensive income							
- exchange differences	**-**	**-**	**-**	**-**	**4,919**	**-**	**4,919**
Total comprehensive income	**-**	**-**	**-**	**-**	**4,919**	**9,887**	**14,806**
As at 30 June 2019 (unaudited)	**28,115**	**555,090**	**(3,204)**	**7,477**	**(97,342)**	**(362,233)**	**127,903**

	Called up share capital $000	Share premium account $000	Merger reserve $000	Capital contributions reserve $000	Foreign exchange reserve* $000	Accumulated losses $000	Total equity $000
As at 1 January 2018 (audited)	28,115	555,090	(3,204)	7,477	(100,932)	(426,178)	60,368
Change in accounting policy	-	-	-	-	-	(106)	(106)
Restated total equity at the beginning of the financial year	28,115	555,090	(3,204)	7,477	(100,932)	(426,284)	60,262
Profit for the period	-	-	-	-	-	38,859	38,859
Other comprehensive income							
- exchange differences	-	-	-	-	2,731	-	2,731
Total comprehensive income	-	-	-	-	2,731	38,859	41,590
As at 30 June 2018 (unaudited)	28,115	555,090	(3,204)	7,477	(98,201)	(387,425)	101,852

* Predominantly as result of exchange differences on retranslation, where the subsidiaries functional currency is not US Dollar

The Notes set out below are an integral part of these unaudited condensed interim consolidated financial statements.

Regal Petroleum

Press Release

Condensed Interim Consolidated Statement of Cash Flows

	Note	**6 months ended 30 Jun 19 (unaudited) $000**	6 months ended 30 Jun 18 (unaudited) $000
Operating activities			
Cash generated from operations	13	**17,596**	13,103
Equipment rental income		**15**	-
Income tax paid		**(2,811)**	(2,267)
Interest received		**2,636**	1,079
Net cash inflow from operating activities		**17,436**	11,915
Investing activities			
Disposal of subsidiary		**(7)**	-
Purchase of property, plant and equipment		**(4,105)**	(2,995)
Purchase of intangible assets		**(19)**	(25)
Proceeds from sale of property, plant and equipment		**16**	15
Proceeds from disposal of other short-term investments		**-**	16,000
Net cash (outflow)/inflow from investing activities		**(4,115)**	12,995
Financing activities			
Principal elements of lease payments		(197)	-
Net cash outflow from financing activities		**(197)**	-
Net increase in cash and cash equivalents		**13,124**	24,910
Cash and cash equivalents at beginning of the period	12	**53,222**	14,249
Change in accounting policies		**-**	(9)
ECL of cash and cash equivalents		**(31)**	-
Effect of foreign exchange rate changes		**1,494**	886
Cash and cash equivalents at end of the period	12	**67,809**	40,036

The Notes set out below are an integral part of these unaudited condensed interim consolidated financial statements.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

1. General Information and Operational Environment

Regal Petroleum plc (the "Company") and its subsidiaries (together the "Group") is a gas, condensate and LPG production group.

Regal Petroleum plc is a company quoted on the AIM Market of the London Stock Exchange and incorporated in England and Wales under the Companies Act 2006. The Company's registered office is at 16 Old Queen Street, London SW1H 9HP, United Kingdom and its registered number is 4462555.

As at 31 December 2018, Pelidona Services Limited held 173,128,587 ordinary shares (54.00%) in the issued share capital of the Company. On 20 June 2019, Pelidona Services Limited increased its shareholding interest in the Company to 264,996,769 ordinary shares (82.65%). As at 30 June 2019, the Company's immediate parent company was Pelidona Services Limited, which is 100% owned by Lovitia Investments Limited, which is 100% owned by Mr V Novynskyi. Accordingly, the Company is ultimately controlled by Mr V Novynskyi.

On 4 March 2019, the Group disposed of its 100% shareholding in Refin LLC to a company under common control for consideration of approximately $9,250. The carrying amount of this subsidiary company at the date of disposal was $125,000, and so the disposal resulted in recognition of a loss on disposal of $115,000.

The Group's gas, condensate and LPG extraction and production facilities are located in Ukraine. The ongoing political and economic instability in Ukraine, which commenced in late 2013, has led to a deterioration of Ukrainian State finances, volatility of financial markets, illiquidity in capital markets, higher inflation and a depreciation of the national currency against major foreign currencies, although there have been some gradual improvements recently.

The Ukrainian economy is showing signs of stabilisation after the previous years of political and economic tensions. The year-on-year inflation rate in Ukraine decreased to 3.6% during the first half 2019 (as compared to 9.8% in 2018), while GDP grew at 2.5% in the first six months of 2019 (after 3.3% growth in 2018).

The National Bank of Ukraine ("NBU") continued its inflation targeting policy and periodically raised its key policy rate from 12.5% in May 2017 to 17% in July 2019. This has helped restrain inflation below 10%, although the cost of domestic funding has increased significantly. The NBU adhered to a floating Ukrainian Hryvnia exchange rate, which finished the first half 2019 at UAH26.17/$1.00, compared to UAH26.19/$1.00 as at 30 June 2018 (31 December 2018: UAH27.69/$1.00).

Among the key mitigating factors enabling the recent relative stability of the Ukrainian Hryvnia were the agreement on a new International Monetary Fund ("IMF") programme, strong revenues of agricultural exporters, tight Ukrainian Hryvnia liquidity and a growth in remittances from labour migrants.

In December 2018, the IMF approved a 14-month Stand-By Arrangement ("SBA") for Ukraine, totalling $3.9 billion which replaced the previous Extended Fund Facility Programme. The first tranche under the SBA of $1.4 billion was received in December 2018, and further disbursements will be considered until November 2019, depending on Ukraine's success in fulfilling the terms of the Memorandum on Economic and Financial Policies agreed with the IMF.

In 2019-2020, Ukraine faces major public debt repayments, which will require the arrangement of substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. Despite certain improvements in 2018-2019, the outcome of these matters and the ongoing effects of the political and economic situation are difficult to predict, but they may have further severe effects on the Ukrainian economy and the Group's business.

Further details of risks relating to Ukraine can be found within the Principal Risks and Uncertainties section earlier in this announcement.

Having considered the Principal Risks and Uncertainties section of this announcement, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future regarded as at least 12 months from the date of this announcement. Accordingly, the going concern basis has been adopted in preparing these unaudited condensed interim consolidated financial statements for the period ended 30 June 2019.

The unaudited condensed interim consolidated financial statements for the six month period ended 30 June 2019 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union. The unaudited condensed interim consolidated financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, this report should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (hereinafter "IFRSs") as adopted by the European Union.

These unaudited condensed interim consolidated financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018 were approved by the Board of Directors on 29 April 2019 and subsequently filed with the Registrar of Companies. The Auditor's Report on those accounts was not qualified and did not contain any statement under section 498 of the Companies Act 2006.

The Auditor has carried out a review of the unaudited condensed interim consolidated financial statements for the six month period ended 30 June 2019 and its report is shown at the end of this announcement.

2. Accounting Judgements and Estimates

The accounting policies and methods of computation and presentation used are consistent with those used in the Group's Annual Report and Financial Statements for the year ended 31 December 2018, with the exception of the following new or revised standards and interpretations:

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group had to change its accounting policies as a result of the adoption of IFRS 16 Leases.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Estimates

The preparation of the unaudited condensed interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these unaudited condensed interim consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the consolidated financial statements for the year ended 31 December 2018 with certain updates described below.

Recoverability of Development and Production Assets in Ukraine

According to the Group's accounting policies, costs capitalised as assets are assessed for impairment at each balance sheet date if impairment indicators exist. In assessing whether an impairment loss has occurred, the carrying value of the asset or cash-generating unit ("CGU") is compared to its recoverable amount. The recoverable amount is the greater of fair value less costs to dispose and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the respective impairment loss is recognised as an expense immediately. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversals are recognised as income immediately.

MEX-GOL and SV gas and condensate fields

At 30 June 2019, the Group performed an assessment of external and internal indicators to ascertain whether there was any indication of potential impairment of the recoverable amount of the oil and gas development production asset at the MEX-GOL and SV fields. Based on this assessment, the Group concluded that no external or internal impairment indicators existed as at 30 June 2019, and accordingly no impairment testing was required as at that date.

VAS gas and condensate field

Following the successful outcome of the recent drilling project and the subsequent revision of the field development plan for the VAS field in 2019, the Group considered it appropriate to undertake a reassessment of the reserves and resources at the VAS field. Accordingly, the Group engaged independent petroleum consultants DeGolyer and MacNaughton ("D&M") to prepare an updated estimate of remaining reserves and resources as of 31 December 2018. The revised field development plan for this field prepared in 2019 assumes an increase in the number of new wells from one to three wells. The final report issued by D&M in August 2019 provided an estimate of the Group's proved plus probable ("2P") reserves of 3.1 MMboe. The report represents a significant increase in the remaining reserves and resources in this field since the previous estimation undertaken by Senergy (GB) Limited as at 1 January 2016 (1.8 MMboe). The increase in 2P reserves caused the revision of the expected economic life of the field from 2024 to 2028. Further details of this reserves update are set out in the Company's announcement made on 21 August 2019.

At 30 June 2019, the Group performed an assessment of external and internal indicators to ascertain whether there was any indication of potential impairment of the recoverable amount of the oil and gas development production asset at the VAS field. Based on this assessment, the Group concluded that no external or internal impairment indicators existed as at 30 June 2019, and accordingly no impairment testing was required as at that date.

Depreciation of Development and Production Assets

Development and production assets held in property, plant and equipment are depreciated on a unit of production basis at a rate calculated by reference to proven and probable reserves at the end of the period plus the production in the period, and incorporating the estimated future cost of developing and extracting those reserves. Future development costs are estimated using assumptions about the number of wells required to produce those reserves, the cost of the wells, future production facilities and operating costs, together with assumptions on oil and gas realisations, and are revised annually. The reserves estimates used are determined using estimates of gas in place, recovery factors, future hydrocarbon prices and also

take into consideration the Group's latest development plan for the associated development and production asset. Additionally, the latest development plan and therefore the inputs used to determine the depreciation charge, assume that the current licences for the MEX-GOL and SV fields, which are due to expire in July 2024, can be extended until the end of the economic life of the fields.

In light of the revision of the field development plan for the VAS field and the re-assessment of the 2P reserves at this field performed in 2019 by D&M as described above, the Group has revised the estimate of 2P reserves and future cost of developing and extracting those reserves used for the depletion and amortisation calculation. The effect of the change in estimates made in the current reporting period was appropriately recognised in profit or loss in the period of the change and amounted to a decrease of $84,600 in the depletion charge of property, plant and equipment (the depletion charge decreased by $942,600 due to the increase in 2P reserves and increased by $858,000 due to the increase in future capital expenditure) and a decrease of $162,000 in amortisation of mineral reserves for the first half of 2019.

Provision for Decommissioning

The Group has decommissioning obligations in respect of its Ukrainian assets. The full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs.

A detailed assessment of gross decommissioning cost was undertaken on a well-by-well basis using local data on day rates and equipment costs. The discount rate applied on the decommissioning cost provision at 30 June 2019 was 5.09% (31 December 2018: 8.14%). The discount rate is calculated in real terms based on the yield to maturity of Ukrainian Government bonds denominated in the currency in which the liability is expected to be settled and with the settlement date that approximates the timing of settlement of decommissioning obligations.

The change in estimate applied to calculate the provision as at 30 June 2019 resulted from the revision of the estimated costs of decommissioning (increase of $101,000 in provision), the decrease in the discount rate applied (increase of $1,397,000 in provision) and the extension of the economic life of the VAS field as a result of the revision of the field development plan in 2019 (decrease of $581,000 in provision). The decrease in discount rate at 30 June 2019 resulted from the decrease in Ukrainian Eurobonds yield and the respective decrease of country risk premium. The costs are expected to be incurred by 2038 on the MEX-GOL field, by 2042 on the SV field, and by 2028 on the VAS field (31 December 2018: by 2038 on the MEX-GOL field, by 2042 on the SV field and 2024 on the VAS field respectively), which is the end of the estimated economic life of the respective fields. If the costs on the MEX-GOL and SV fields were to be incurred at the current expiry of the production licences in 2024, the provision for decommissioning at 30 June 2019 would be $7,978,000 (31 December 2018: $6,268,000).

Changes in presentation

Where necessary, corresponding figures have been adjusted to conform to changes in the presentation in the current period.

3. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 19.8% for contracts in UAH and 7.4% for contracts in USD.

	2019 **$000**
Operating lease commitments disclosed as at 31 December 2018	1,884
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(667)
(Less): short-term leases recognised on a straight-line basis as expense	(85)
(Less): low-value leases recognised on a straight-line basis as expense	(10)
Lease liability recognised as at 1 January 2019	**1,122**
Of which are:	
Current lease liabilities	371
Non-current lease liabilities	751

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 Jun 19 $000	1 Jan 19 $000
Properties	**538**	595
Land	**325**	311
Wells	**212**	216
	1,075	1,122

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by $1,122,000
- lease liabilities – increase by $1,122,000.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The Group's leasing activities and how these are accounted for

The Group leases various wells, offices, equipment and land. Rental contracts are typically made for fixed periods of 1 to 25 years but may have extension options as described in (ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(i) Variable lease payments

Estimation uncertainty arising from variable lease payments

Some property leases contain variable payment terms that are linked to the volume of production. For wells, up to 100 per cent of lease payments are on the basis of variable payment terms. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for wells under reconstruction. Variable lease payments that depend on the volume of production are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

(ii) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

(iii) Residual value guarantees

The Group does not provide residual value guarantees in relation to equipment leases.

4. Segmental Information

In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, who review internal monthly management reports, budgets and forecast information as part of this process. Accordingly, the Board of Directors is deemed to be the Chief Operating Decision Maker within the Group.

The Group's only class of business activity is oil and gas exploration, development and production. The Group's operations are located in Ukraine, with its head office in the United Kingdom. These geographical regions are the basis on which the Group reports its segment information. The segment results as presented represent operating profit before depreciation, amortisation and reversal of impairment of non-current assets.

6 months ended 30 June 2019 (unaudited)

	Ukraine $000	United Kingdom $000	Total $000
Revenue			
Gas sales	23,347	-	23,347
Condensate sales	6,127	-	6,127
Liquefied Petroleum Gas sales	1,799	-	1,799
Total revenue	31,273	-	31,273
Segment result	19,723	(1,107)	18,616
Depreciation and amortisation	(4,928)	-	(4,928)
Operating profit			13,688
Segment assets	114,564	24,203	138,767
Capital additions*	6,722	-	6,722

6 months ended 30 June 2018 (unaudited)

	Ukraine $000	United Kingdom $000	Total $000
Revenue			
Gas sales	18,497	-	18,497
Condensate sales	4,789	-	4,789
Liquefied Petroleum Gas sales	1,357	-	1,357
Total revenue	24,643	-	24,643
Segment result	14,076	(829)	13,247
Depreciation and amortisation	(3,187)	-	(3,187)
Reversal of impairment of property, plant and equipment	34,469	-	34,469
Operating profit			44,529
Segment assets	80,197	31,684	111,881
Capital additions*	5,311	-	5,311

12 months ended 31 December 2018 (audited)

	Ukraine 2018 $000	United Kingdom 2018 $000	Total 2018 $000
Revenue			
Gas sales	49,668	-	49,668
Condensate sales	12,772	-	12,772
Liquefied Petroleum Gas sales	3,658	-	3,658
Total revenue	66,098	-	66,098
Segment result	41,311	(1,509)	39,802
Depreciation and amortisation	(7,901)	-	(7,901)
Reversal of impairment of property, plant and equipment	34,469	-	34,469
Operating profit			66,370
Segment assets	95,782	27,557	123,339
Capital additions*	9,552	-	9,552

*Comprises additions to property, plant and equipment and intangible assets (Notes 8 and 9).

There are no inter-segment sales within the Group and all products are sold in the geographical region in which they are produced. The Group is not significantly impacted by seasonality.

During the first half of 2019, the Group continued selling all of its gas production to its related party, LLC Smart Energy ("Smart Energy"). Smart Energy has oil and gas operations in Ukraine and is part of the PJSC Smart-Holding Group, which is ultimately controlled by Mr Vadym Novynskyi, who, through an indirect 82.65% majority shareholding, ultimately controls the Group. This arrangement began in 2017 as a consequence of the Ukrainian Government introducing a number of new provisions into the Ukrainian Tax Code over recent years, including transfer pricing regulations for companies operating in Ukraine. The introduction of those regulations meant that there was an increased regulatory burden on affected companies in Ukraine who must prepare and submit reporting information to the Ukrainian Tax Authorities. Due to the corporate structure of the Group, a substantial proportion of its gas production is produced by a non-Ukrainian subsidiary of the Group, which operates in Ukraine as a branch, or representative office as it is classified in Ukraine. Under the tax regulations, this places additional regulatory obligations on each of the Group's potential customers who may be less inclined to purchase the Group's gas and/or may seek discounts on sales prices. As a result, Smart Energy agreed to purchase all of the Group's gas production and to assume responsibility for the regulatory obligations under the Ukrainian tax regulations. Furthermore, Smart Energy agreed to combine the Group's gas production with its own gas production, and to sell such gas as combined volumes, which has resulted in higher sales prices due to the larger sales volumes. In order to cover Smart Energy's sales, administration and regulatory compliance costs, the Group agreed to sell its gas to Smart Energy at a discount of 0.5% to the gas sales prices achieved by Smart Energy, who sell the combined volumes in line with market prices. Due to changes in the regulatory regime in Ukraine, which has increased the burden of administration and regulatory compliance obligations involved in the sale of gas, and in order to ensure that the Group is compliant with current transfer pricing regulations in Ukraine, the Group and Smart Energy have agreed to increase the discount on the price at which the Group sells its gas to Smart Energy from 0.5% to 2%. The terms of sale for the Group's gas to Smart Energy are (i) payment for one third of the estimated monthly volume of gas by the 20th of the month of delivery, and (ii) payment of the remaining balance by the 10th of the month following the month of delivery.

5. Cost of Sales

	6 months ended 30 Jun 19 (unaudited) $000	6 months ended 30 Jun 18 (unaudited) $000
Production taxes	**6,660**	6,106
Depreciation of property, plant and equipment	**4,297**	2,677
Rent expenses	**3,256**	1,323
Staff costs	**1,161**	987
Cost of inventories recognised as an expense	**688**	717
Transmission tariff for Ukrainian gas system	**336**	-
Amortisation of mineral reserves	**244**	409
Other expenses	**705**	534
	17,347	12,753

New legislation relating to the oil and gas sector in Ukraine has been introduced over the last year, and in this regard, with effect from 1 January 2019, the subsoil tax rates applicable to condensate production were reduced from 45% to 31% for condensate produced from deposits above 5,000 metres and from 21% to 16% for condensate produced from deposits below 5,000 metres.

From 1 January 2019, a transmission tariff for use of the Ukrainian gas system of UAH91.87 per 1000 m^3 of gas was introduced.

6. Taxation

The income tax charge of $3,368,000 for the six month period ended 30 June 2019 relates to a current tax charge of $1,684,000 and a deferred tax charge of $1,684,000 (six month period ended 30 June 2018: current tax charge of $2,102,000 and deferred tax charge of $4,017,000).

The movement in the period was as follows:

	6 months ended 30 Jun 19 (unaudited) $000	6 months ended 30 Jun 18 (unaudited) $000
Deferred tax asset recognised on tax losses		
At beginning of the period	**2,134**	2,567
(Charged)/credited to Income Statement - current year	**(2,134)**	4,669
At end of the period	**-**	7,236
Deferred tax asset/(liability) recognised relating to development and production assets at MEX-GOL-SV fields and provision for decommissioning		
At beginning of the period	**1,149**	6,694
Credited/(charged) to Income Statement - current period	**209**	(8,801)
Effect of exchange difference	**6**	488
At end of the period	**1,364**	(1,619)
Deferred tax liability recognised relating to development and production assets at VAS field and provision for decommissioning		
At beginning of the period	**(504)**	(820)
Credited to Income Statement - current period	**241**	115
Effect of exchange difference	**(21)**	(56)
At end of the period	**(284)**	(761)

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

At 30 June 2019, the Group derecognised a deferred tax asset of $2,134,000 due to losses expected in the foreseeable future. There was a further $101 million (31 December 2018: $85 million) of unrecognised UK tax losses carried forward for which no deferred tax asset has been recognised. These losses can be carried forward indefinitely, subject to certain rules regarding capital transactions and changes in the trade of the Company.

The deferred tax asset relating to the Group's provision for decommissioning at 30 June 2019 of $208,000 (31 December 2018: $161,000) was recognised on the tax effect of the temporary differences of the Group's provision for decommissioning at the MEX-GOL and SV fields, and its tax base. The deferred tax asset relating to the Group's development and production assets at the MEX-GOL and SV fields at 30 June 2019 of $1,156,000 (31 December 2018: $988,000) was recognised on the tax effect of the temporary differences between the carrying value of the Group's development and production asset at the MEX-GOL and SV fields, and its tax base.

The deferred tax asset relating to the Group's provision for decommissioning at 30 June 2019 of $293,000 (31 December 2018: $271,000) was recognised on the tax effect of the temporary differences on the Group's provision on decommissioning at the VAS field, and its tax base. The deferred tax liability relating to the Group's development and production assets at the VAS field at 30 June 2019 of $577,000 (31 December 2018: $775,000) was recognised on the tax effect of the temporary differences between the carrying value of the Group's development and production asset at the VAS field, and its tax base.

UK Corporation tax change

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the corporation tax rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 were substantively enacted on 26 October 2015. The changes to reduce the UK corporation tax rate to 17% from 1 April 2020 were substantively enacted on 6 September 2016 and the effect of these changes are included in these unaudited condensed interim consolidated financial statements.

7. Profit per Share

The calculation of basic and diluted earnings per ordinary share has been based on the profit for the six month period ended 30 June 2019 and 30 June 2018 and 320,637,836 ordinary shares, being the average number of shares in issue for the period. There are no dilutive instruments.

8. Property, Plant and Equipment

	6 months ended 30 Jun 19 (unaudited)				6 months ended 30 Jun 18 (unaudited)		
	Oil and gas development and production assets Ukraine $000	**Oil and gas exploration and evaluation assets $000**	**Other fixed assets $000**	**Total $000**	Oil and gas development and production assets Ukraine $000	Other fixed assets $000	Total $000
Cost							
At beginning of the period	**104,809**	**1,259**	**1,293**	**107,361**	101,927	1,104	103,031
Additions	**5,791**	**796**	**68**	**6,655**	4,959	303	5,262
Change in decommissioning provision	**1,058**	**-**	**-**	**1,058**	(393)	-	(393)
Disposals	**(51)**	**-**	**-**	**(51)**	(11)	(25)	(36)
Exchange differences	**6,292**	**117**	**45**	**6,454**	7,622	43	7,665
At end of the period	**117,899**	**2,172**	**1,406**	**121,477**	114,104	1,425	115,529
Accumulated depreciation and impairment							
At beginning of the period	**56,567**	**-**	**602**	**57,169**	87,591	478	88,069
Charge for the period	**4,388**	**-**	**103**	**4,491**	2,677	79	2,756
Reversal of impairment	**-**	**-**	**-**	**-**	(36,117)	-	(36,117)
Impairment charged for individual assets	**-**	**-**	**-**	**-**	1,648	-	1,648
Disposals	**(17)**	**-**	**(4)**	**(21)**	(2)	(17)	(19)
Exchange differences	**3,409**	**-**	**39**	**3,448**	6,257	34	6,291
At end of the period	**64,347**	**-**	**740**	**65,087**	62,054	574	62,628
Net book value at the beginning of the period	**48,242**	**1,259**	**691**	**50,192**	14,336	626	14,962
Net book value at end of the period	**53,552**	**2,172**	**666**	**56,390**	52,050	851	52,901

As described in Note 2, as at 30 June 2019, the Group concluded that no external or internal impairment indicators existed as at 30 June 2019, and accordingly no impairment testing was required as at that date.

Additions to the oil and gas development and production assets in the amount of $4,649,000 relate to the drilling costs of the MEX-119 well on MEX-GOL field.

During the first half 2019, the Group completed the acquisition of new 3D seismic over the VAS field which will assist in the evaluation of the VAS licence, and particularly the VED area of the licence. Since no commercially viable reserves have been identified in the VED area as yet, the costs of the seismic over this area were capitalised within property, plant and equipment as exploration and evaluation assets.

9. Intangible Assets

	6 months ended 30 Jun 19 (unaudited)			6 months ended 30 Jun 18 (unaudited)		
	Mineral reserve rights $000	**Other intangible assets $000**	**Total $000**	Mineral reserve rights $000	Other intangible assets $000	Total $000
Cost						
At beginning of the period	**6,709**	**330**	**7,039**	6,618	257	6,875
Additions	**-**	**67**	**67**	-	49	49
Exchange differences	**390**	**21**	**411**	475	20	495
At end of the period	**7,099**	**418**	**7,517**	7,093	326	7,419
Accumulated amortisation and impairment						
At beginning of the period	**1,965**	**194**	**2,159**	1,161	124	1,285
Amortisation charge for the period	**244**	**57**	**301**	409	41	450
Exchange differences	**121**	**6**	**127**	90	11	101
At end of the period	**2,330**	**257**	**2,587**	1,660	176	1,836
Net book value at beginning of the period	**4,744**	**136**	**4,880**	5,457	133	5,590
Net book value at end of the period	**4,769**	**161**	**4,930**	5,433	150	5,583

Intangible assets consist mainly of the hydrocarbon production licence relating to the VAS gas and condensate field which is held by LLC Prom-Enerho Produkt. The Group amortises this intangible asset using the straight-line method over the term of the economic life of the VAS field until 2028. The economic life of the VAS field was extended as a result of the new assessment of 2P reserves, as described in Note 2.

At 30 June 2019, the Group performed an assessment of external and internal indicators to ascertain whether there was any indication of potential impairment of intangible assets. Based on this assessment, the Group concluded that no external or internal impairment indicators existed as at 30 June 2019, and accordingly no impairment testing was required as at that date.

10. Trade and Other Receivables

	30 Jun 19 (unaudited) $000	31 Dec 18 (audited) $000
Trade receivables	**1,909**	5,012
Other financial receivables	**263**	202
Less credit loss allowance	**(99)**	(99)
Total financial receivables	**2,073**	5,115
Prepayments and accrued income	**2,340**	4,771
Other receivables	**231**	244
Total trade and other receivables	**4,644**	10,130

Due to the short-term nature of the current trade and other financial receivables, their carrying amount is assumed to be the same as their fair value. All trade and other financial receivables, except those provided for, are considered to be of high credit quality.

The majority of the trade receivables are from a related party, LLC Smart Energy, that purchases all of the Group's gas production (see Note 4). The applicable payment terms are payment for one third of the estimated monthly volume of gas by the 20th of the month of delivery, and payment of the remaining balance by the 10th of the month following the month of delivery. The trade receivables were paid in full after the end of the period.

Prepayments and accrued income mainly consist of prepayment of $693,000 relating to the development of the MEX-GOL field and $579,000 relating to the development of the VAS field (31 December 2018: $3,988,000 relating to the development of the MEX-GOL field).

11. Provision for Decommissioning

	6 months ended 30 Jun 19 (unaudited) $000	6 months ended 30 Jun 18 (unaudited) $000
At beginning of the period	**3,137**	3,027
Amounts provided	**141**	91
Unwinding of discount	**128**	72
Change in estimate	**917**	(484)
Effect of exchange difference	**219**	210
At end of the period	**4,542**	2,916

The provision for decommissioning is based on the net present value of the Group's estimated liability for the removal of the Ukraine production facilities and well site restoration at the end of production life.

The non-current provision of $4,542,000 (31 December 2018: $3,137,000) represents a provision for the decommissioning of the Group's MEX-GOL, SV and VAS production facilities, including site restoration. None of the provision was utilised during the reporting period.

As described in Note 2, the change in estimates applied to calculate the provision as at 30 June 2019 resulted from the revision of the estimated costs of decommissioning (increase of $101,000 in provision), the decrease in the discount rate applied (increase of $1,397,000 in provision) and the extension of the economic life of the VAS field as a result of the revision of the field development plan in 2019 (decrease of $581,000 in provision).

12. Financial Instruments

The Group's financial instruments comprise cash and cash equivalents and various items such as debtors and creditors that arise directly from its operations. The Group has bank accounts denominated in British Pounds, US Dollars, Euros, and Ukrainian Hryvnia. The Group does not have any borrowings. The main future risks arising from the Group's financial instruments are currency risk, interest rate risk, liquidity risk and credit risk.

The Group's financial assets and financial liabilities, measured at amortised cost, which approximates their fair value, comprise the following:

	30 Jun 19 (unaudited) $000	31 Dec 18 (audited) $000
Financial assets		
Cash and cash equivalents	**67,809**	53,222
Trade and other receivables	**2,073**	5,115
	69,882	58,337
Financial Liabilities		
Lease liabilities	**1,086**	-
Trade payables	**178**	105
Accruals	**1,052**	1,284
	2,316	1,389

All assets and liabilities of the Group where fair value is disclosed are of level 2 value hierarchy and valued using current cost accounting techniques.

At 30 June 2019, the Group held cash and cash equivalents in the following currencies:

	30 Jun 19 (unaudited) $000	31 Dec 18 (audited) $000
US Dollars	**39,237**	27,699
Ukrainian Hryvnia	**28,269**	25,264
British Pounds	**215**	215
Euros	**88**	44
	67,809	53,222

All of the cash and cash equivalents held in Ukrainian Hryvnia are held in banks within Ukraine, and all other cash and cash equivalents are held in banks within Europe and the United Kingdom.

13. Reconciliation of Operating Profit to Operating Cash Flow

	6 months ended 30 Jun 19 (unaudited) $000	6 months ended 30 Jun 18 (unaudited) $000
Operating profit	**13,688**	44,529
Reversal of impairment of property, plant and equipment	**-**	(34,469)
Depreciation and amortisation	**4,928**	3,187
Less interest income recorded within operating profit	**(2,792)**	(873)
Provision for VAT repayment	**405**	-
Fines and penalties received	**(15)**	-
Loss from credit loss allowance	**41**	11
Loss from write off of non-current assets	**-**	2
Reversal of loss allowance on other financial assets	**(11)**	(38)
Gain on sales of current assets, net	**(18)**	(71)
Decrease in provisions	**(9)**	(4)
Decrease/(increase) in inventory	**(742)**	153
Decrease in receivables	**3,251**	256
(Decrease)/increase in payables	**(1,130)**	420
Cash generated from operations	**17,596**	13,103

14. Contingencies and Commitments

Amounts related to works contracted but not yet undertaken in relation to the Group's 2019 investment programme at the MEX-GOL, SV and VAS gas and condensate fields in Ukraine, but not recorded in the unaudited condensed interim consolidated financial statements at 30 June 2019, were $2,368,000 (31 December 2018: $2,607,000).

During 2010 - 2019, the Group has been in dispute with the Ukrainian tax authorities in respect of VAT receivables on imported leased equipment, with a disputed liability of up to UAH8,487,000 ($324,000) inclusive of penalties and other associated costs. There is a level of ambiguity in the interpretation of the relevant tax legislation, and the position adopted by the Group has been challenged by the Ukrainian tax authorities, which has led to legal proceedings to resolve the issue. The Group had been successful in three court cases in respect of this dispute in courts of different levels. On 20 September 2016, a hearing was held in the Supreme Court of Ukraine of an appeal of the Ukrainian tax authorities against the decision of the Higher Administrative Court of Ukraine, in which the appeal of the Ukrainian tax authorities was upheld. As a result of this appeal decision, all decisions of the lower courts were cancelled, and the case was remitted to the first instance court for a new trial. On 1 December 2016 and 7 March 2017, the Group received positive decisions in the first and second instance courts, but further legal proceedings may arise. Since the Group had been successful in previous court cases in respect of this dispute in courts of different levels, the date of the next legal proceedings has not been set and as the Group believes that adequate defences exist to the claim, no liability has been recognised in these unaudited condensed interim consolidated financial statements for the six months ended 30 June 2019 (31 December 2018: nil).

On 12 March 2019 the Group announced the publication of an Order for suspension (the "Order") by the State Service of Geology and Subsoil of Ukraine affecting the production licence for its VAS gas and condensate field. The Group is confident there are no violations of the terms of the licence or in relation to the operational activities of the Group that would justify the Order or the suspension of the licence. The Group has issued legal proceedings in the Ukrainian Courts to challenge the validity of the Order, and in these proceedings, on 18 March 2019 the Court made a ruling on interim measures to suspend the Order pending hearings of the substantive issues of the case to be held subsequently. The effect of this ruling is that the suspension of operational activities at the VAS licence is deferred until the result of the legal proceedings is determined. These legal proceedings are continuing through the Ukrainian Court system and the ultimate outcome is not yet known. However, the Group considers that the Order is groundless and that the outcome of the legal proceedings challenging the Order will ultimately be in favour of the Group, and consequently, the Group does not expect any negative effect on its operations in respect of this matter.

In the first half 2019, a review of the Group's VAT compliance by HM Revenue & Customs resulted in the disallowance of VAT reclaims of £296,190 and interest of £22,942, which is equivalent to approximately $405,000.

15. Related Party Disclosures

Key management personnel of the Group are considered to comprise only the Directors. Remuneration of the Directors for the six month period ended 30 June 2019 was $369,000 (six month period ended 30 June 2018: $468,000, and year ended 31 December 2018: $810,000).

During the period, Group companies entered into the following transactions with related parties which are not members of the Group:

	6 months ended 30 Jun 19 (unaudited) $000	6 months ended 30 Jun 18 (unaudited) $000
Sale of goods/services	**23,185**	18,514
Purchase of goods/services	**444**	230
Amounts owed by related partied	**1,683**	2,580
Amounts owed to related parties	**157**	61

All related party transactions were with subsidiaries of the ultimate parent company, and primarily relate to the sale of gas to LLC Smart Energy (Note 4), the rental of office facilities and vehicles and the sale of equipment. The amounts outstanding were unsecured and have been or will be settled in cash.

As of 30 June 2019, the Company's immediate parent company was Pelidona Services Limited, which is 100% owned by Lovitia Investments Limited, which is 100% owned by Mr V Novynskyi. Accordingly, the Company was ultimately controlled by Mr V Novynskyi.

The Group operates bank accounts in Ukraine with a related party bank, Unex Bank, which is ultimately controlled by Mr V Novynskyi. There were the following transactions and balances with Unex Bank during the period:

	6 months ended 30 Jun 19 (unaudited) $000	6 months ended 30 Jun 18 (unaudited) $000
Interest income	**-**	1
Bank charges	**1**	20
Closing cash balance	**-**	26

At the date of this announcement, none of the Company's controlling parties prepares consolidated financial statements available for public use.

16. Events occurring after the Reporting Period

There were no significant events to report.