enwell ENERGY

Press Release

17 September 2020

ENWELL ENERGY PLC

2020 INTERIM RESULTS

Enwell Energy plc (the "Company", and with its subsidiaries, the "Group"), the AIM-quoted (ENW) oil and gas exploration and production group with assets in Ukraine, today announces its unaudited results for the six month period ended 30 June 2020.

Highlights

Operations

- Record aggregate average daily production from the MEX-GOL, SV and VAS fields of 4,545 boepd, which compares with 4,192 boepd during the first half of 2019, an increase of approximately 8%
- Completion and hook-up of SV-54 development well in the SV field, with strong production rates
- Commencement of drilling of SV-25 appraisal well in the SV field

Finance

- Revenue of $24.7 million (1H 2019: $31.3 million), down 21% as a result of weakened gas prices in the period
- Gross profit of $7.5 million (1H 2019: $13.9 million)
- Operating profit of $5.2 million (1H 2019: $13.7 million)
- Net profit for the first half of 2020 of $1.2 million (1H 2019: $9.9 million)
- Average realised gas, condensate and LPG prices in Ukraine were all lower, particularly gas prices, at $139/Mm^3 (UAH3,514/Mm^3), $42/bbl and $40/bbl respectively (1H 2019: $256/Mm^3 (UAH6,921/Mm^3) gas, $54/bbl condensate and $52/bbl LPG)
- Cash and cash equivalents of $54.2 million at 30 June 2020, and at 13 September 2020 of $55.5 million (31 December 2019: $62.5 million)

Outlook

- Development work for the remainder of 2020 at MEX-GOL and SV fields includes: continuing drilling operations of the SV-25 well; planning for a further new well or sidetracking of an existing well in the SV field; investigating workover opportunities for existing wells; installation of further compression equipment; and continued investment in gas processing facilities, intra-field flowline network and other infrastructure
- Development work for the remainder of 2020 at VAS field includes: planning for a new well to explore the VED prospect within the VAS licence area; installation of compression equipment; and continued investment in gas processing facilities, flowlines and other infrastructure
- Commencement of planning for development of the SC field operated by Arkona, subject to resolution of legal dispute relating to the SC licence

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- Development programme for the remainder of 2020 expected to be funded from existing cash resources and operational cash flow
- As of the date of this report, the global economy, and global social dynamics, are in a state of disruption and uncertainty as a result of the COVID-19 pandemic. The Board and management continue to monitor the evolving situation and take any steps necessary to protect our staff, stakeholders and business alike. The Group has taken steps to continually monitor the health of operational staff, including temperature checks for such staff at the commencement of each shift, as well as investing in technology to enable many staff to work from remote locations. As of the date hereof, there has been no operational disruption linked to the COVID-19 pandemic, and no material impact is currently envisaged on the Group's prospects. However, the Board and management remain acutely aware of the risks, and are taking action to mitigate them where possible, with the safety of individuals and communities continuing to be the priority.

Sergii Glazunov, CEO, commented: "*2020 has been a good operational year so far, with record production from the MEX-GOL, SV and VAS fields helping to offset the continued impact of lower gas prices. We are looking forward to further progressing our development programme and continuing to improve production rates. Our solid operational base in tandem with our robust cash resources positions us well as we continue our value delivery initiatives, despite current reduced commodity prices. We are closely monitoring the unprecedented developments of the ongoing COVID-19 pandemic, and although we have experienced no material impact so far, we have taken and will continue to take action to ensure the safety of our employees and local communities.*"

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

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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.

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Definitions

AAPG	American Association of Petroleum Geologists
Arkona	LLC Arkona Gas-Energy
bbl	barrel
bbl/d	barrels per day
Bm^3	thousands of millions cubic metres
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
C_1	reserves in deposits that were not put into commercial development and that may be the subject matter of production testing or individual well production testing
C_2	reserves in deposits that were not put into commercial development and that are developed based on a production testing plan or individual well production testing plan, matured with seismic exploration or other methods, and the availability of which is supported by geological and geophysical study data as well as testing data obtained from individual wells whilst drilling
Company	Enwell Energy plc
€	Euro
Group	Enwell Energy plc and its subsidiaries
km	kilometre
km^2	square kilometre
LPG	liquefied petroleum gas
MEX-GOL	Mekhediviska-Golotvshinska
m^3	cubic metres
MMboe	million barrels of oil equivalent
MMm^3	million cubic metres
MMscf	million scf
MMscf/d	million scf per day
Mtonnes	thousand tonnes
%	per cent
QHSE	quality, health, safety and environment
SC	Svystunivsko-Chervonolutskyi
scf	standard cubic feet measured at 20 degrees Celsius and one atmosphere
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
SV	Svyrydivske
$	United States Dollar
UAH	Ukrainian Hryvnia
Ukrnaftinvest	PJSC Science and Production Concern Ukrnaftinvest
VAS	Vasyschevskoye
VED	Vvdenska
WPC	World Petroleum Council

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Chairman's Statement

During the first half of 2020, the Group continued with the development of the MEX-GOL, SV and VAS gas and condensate fields in north-eastern Ukraine, with a good operational performance during the period. Drilling of the SV-54 development well was successfully completed and brought on production in May 2020, with strong flow rates.

At the MEX-GOL and SV fields, production was stable during the first half of 2020, with higher production volumes compared with the same period last year. At the VAS field production was also steady, but lower than during the first half of 2019 after a decline in production from the VAS-10 well in late 2019.

Aggregate average daily production from the MEX-GOL, SV and VAS fields during the first half of 2020 was a record 4,545 boepd, which compares with an aggregate daily production rate of 4,192 boepd during the first half of 2019, an increase of approximately 8%, and average daily production of 4,263 boepd for the 2019 year.

During the first half of 2020, the Group's operating profit was $5.2 million (1H 2019: $13.7 million), with the decrease from the same period last year predominantly as a result of weakened European gas prices, despite higher production rates. Cash generated from operations during the period was also lower at $11.0 million (1H 2019: $17.6 million) for the same reasons.

The fiscal and economic environment in Ukraine remains positive despite the effects of the COVID-19 outbreak, resulting in lower GDP growth, declining inflation and weakening Ukrainian Hryvnia exchange rates. Nevertheless, fiscal and economic challenges in Ukraine remain and we continue to be vigilant.

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 broadly correlate with the imported gas prices. During the first half of 2020, gas prices trended lower, reflecting a similar trend in European gas prices, and were significantly lower than in the same period in 2019. Similarly, condensate and LPG prices were also lower by comparison with the first half of 2019.

Arkona Acquisition

As announced on 24 March 2020, the Group has acquired the entire issued share capital of LLC Arkona Gas-Energy ("Arkona") for total consideration of up to $8.63 million, subject to satisfaction of certain conditions. Arkona holds a 100% interest in the Svystunivsko-Chervonolutskyi ("SC") exploration licence in north-eastern Ukraine, some 15 km east of the SV field. The SC licence was granted in May 2017, with a duration of 20 years, and is prospective for gas and condensate. As with the productive reservoirs in the SV field, the prospective reservoirs in this licence are Visean, at depths between 4,600 – 6,000 metres.

However, NJSC Ukrnafta has issued legal proceedings against Arkona, in which NJSC Ukrnafta has made claims about the procedure involved in the grant of the SC licence to Arkona in May 2017 (see announcements dated 3 July and 31 July 2020). In early July 2020, the First Instance Court in Ukraine announced a ruling in favour of NJSC Ukrnafta, which found that the grant of the SC licence was irregular, which would mean the licence is invalid. Arkona disputes these claims and is defending such legal proceedings, and consequently has filed an appeal in the Appellate Administrative Court in Kyiv. Pending the outcome of the appeal process, the SC licence remains valid.

COVID-19

We continue to closely monitor the current volatility in global financial markets, and the implications on the operational, economic and social environment within which we work caused by the COVID-19 pandemic, coupled with the recent sharp decline in hydrocarbon prices. As of the date hereof, there has been no operational disruption linked to the COVID-19 pandemic, and no material impact is currently envisaged on the Group's prospects. However, the Board and management remain acutely aware of the risks, and continue to take action to mitigate them where possible, not only to protect our staff and stakeholders but also to minimise disruption to our business. We have taken steps to continually monitor the health of our operational staff, including temperature checks for such staff at the commencement of each shift, as well as investing in technology to enable many staff to work from remote locations. We continue to reassess our medium-term forecasts based on current pricing and are confident we have the resources to continue to deliver on our plans. Of course, we cannot be certain of the duration of the pandemic's impact but will remain focussed on monitoring and protecting our business through the period of uncertainty. In protecting our stakeholders' interests, we are conscious of our wider obligations to the communities, and country, in which we operate. Accordingly, as previously announced, we have acted, alongside other corporate entities in Ukraine, to directly acquire critical equipment and supplies from Chinese suppliers to donate to the Ukrainian State to assist its efforts to manage the pandemic in Ukraine. Our monetary contribution of $2 million to this initiative is reflected in the results for the period.

Outlook

Whilst there are still challenges in the business environment in Ukraine, the situation is relatively stable despite the COVID-19 outbreak. After the steady operational performance during the first half of 2020, and the increased production output during the period, we are looking forward to the results of the SV-25 appraisal well, which are expected in the first half of 2021. We are also looking forward to achieving further success in the development activities planned for the remainder of 2020 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 and especially in the midst of the COVID-19 pandemic.

Chris Hopkinson
Chairman
16 September 2020

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Chief Executive Officer's Statement

Introduction

The Group continued its good progress at its Ukrainian fields during 2020 with development activity at the MEX-GOL and SV fields, including the successful drilling of the SV-54 development well, which came on production in May, the commencement of the SV-25 well and work to upgrade the gas processing facilities and flow-line network and undertake remedial work on existing wells.

At the VAS field, planning for the proposed new well to explore the VED prospect within the VAS licence area has continued, and upgrades to the gas processing facilities, flow-line network and other infrastructure are underway.

Overall production continued its upward trend during the period, achieving record levels for the Group and being 8% higher than in the first half of 2019, with a substantial boost in the second quarter, once the SV-54 well came on production.

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 2020 was as follows:-

Field	Gas (MMscf/d)		Condensate (bbl/d)		LPG (bbl/d)		Aggregate boepd	
	1H 2020	1H 2019	**1H 2020**	1H 2019	**1H 2020**	1H 2019	**1H 2020**	1H 2019
MEX-GOL & SV	**17.4**	14.0	**654**	542	**292**	273	**3,941**	3,203
VAS	**3.1**	4.9	**34**	81	**-**	-	**604**	989
Total	**20.5**	18.9	**688**	623	**292**	273	**4,545**	4,192

Production rates were higher when compared with the corresponding period in 2019, predominantly due to the contributions of the MEX-119 well, which commenced production in October 2019, and the SV-54 well, which commenced production in May 2020.

The Group's average daily production for the period from 1 July 2020 to 31 August 2020 from the MEX-GOL and SV field was 18.3 MMscf/d of gas, 640 bbl/d of condensate and 292 bbl/d of LPG (4,079 boepd in aggregate) and from the VAS field was 2.9 MMscf/d of gas and 30 bbl/d of condensate (577 boepd in aggregate).

Operations

The relatively stable fiscal and economic conditions in Ukraine, coupled with reductions in the subsoil tax rates and improvements in the regulatory procedures in the oil and gas sector in Ukraine over recent periods, have given the Board confidence to continue the Group's development programme at its Ukrainian fields during 2020. However, lower realised gas prices significantly impacted revenues, following a general decline in gas prices in Europe.

The Group continued to refine its geological subsurface models of the MEX-GOL, SV and VAS fields, in order to enhance its strategies for the further development of the fields, including the timing and level of future capital investment required to exploit the hydrocarbon resources.

At the MEX-GOL and SV fields, the drilling of the SV-54 development well was completed to a final depth of 5,322 metres. One interval, at a drilled depth of 5,303 – 5,308 metres in the B-23 Visean formation, was perforated, and after successful testing, the well was hooked-up to the gas processing facilities. The well has demonstrated good production rates and is currently producing at approximately 2.0 MMscf/d of gas and 9.3 bbl/d of condensate (355 boepd in aggregate).

In July 2020, the SV-25 well was spudded. This well has a target depth of 5,320 metres, with drilling operations scheduled to be completed by the end of the first quarter of 2021, and, subject to successful testing, production hook-up during the second quarter of 2021. The well is an appraisal well, with its primary targets being the B-20, B-22 and B-23 horizons in the Visean formation.

The Group continues to operate each of the SV-2 and SV-12 wells under joint venture agreements with NJSC Ukrnafta, the majority State-owned oil and gas producer. Under the agreements, the gas and condensate produced from the respective wells 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 wells as revenue, and the net profit share due to NJSC Ukrnafta being treated as a lease expense in cost of sales. Both of these wells have proven to be strong producers since being brought back on production.

At the VAS field, planning has continued for a new well to explore the VED prospect within the VAS licence area. However, a decline in production rates from the VAS-10 well impacted overall production at the VAS field during the fourth quarter of 2019, and as a result, compression equipment was installed to increase production from this well, with a longer term plan to undertake a workover of the well to access an alternative reservoir horizon.

In March 2019 (see announcement made on 12 March 2019), a regulatory issue arose 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.

New Acquisitions

As announced on 24 March 2020, the Group has acquired the entire issued share capital of LLC Arkona Gas-Energy ("Arkona") for total consideration of up to \$8.63 million, with \$4.3 million subject to the satisfaction of certain conditions as set out therein. Arkona holds a 100% interest in the Svystunivsko-Chervonolutskyi ("SC") exploration licence, which is located in the Poltava region in north-eastern Ukraine. The SC licence has an area of 97 km^2, and is approximately 15 km east of the SV field. The licence was granted in May 2017 with a duration of 20 years. The licence is prospective for gas and condensate, and has been the subject of exploration since the 1980s, with 5 wells having been drilled on the licence since then, although none of these wells are currently on production. As with the productive reservoirs in the SV field, the prospective reservoirs in the licence are Visean, at depths between 4,600 – 6,000 metres.

According to the recorded information on the Ukrainian State Balance of Natural Resources as at 1 January 2020, the licence has hydrocarbon reserves, in the category of C_1 and C_2 under the Ukrainian classification, DKZ, of approximately 38.0 MMboe (4.9 Bm^3 of gas and 0.86 Mtonnes of condensate). It should be noted, however, that whilst the Group's review of existing technical data for the licence is considered supportive of such assessment of hydrocarbon reserves, such hydrocarbon reserves have not been verified by an independent reserves assessor and do not correspond to the SPE/WPC/AAPG/SPEE Petroleum Resources Management System ("PRMS") standard for classification and reporting.

However, NJSC Ukrnafta, as claimant, has issued legal proceedings against Arkona, as defendant, in which NJSC Ukrnafta has made claims about the procedure involved in the grant of the SC licence to Arkona in May 2017 (see announcements dated 3 July and 31 July 2020). NJSC Ukrnafta was the holder of a previous licence over this area which expired prior to the grant of the SC licence. In early July 2020, the First Instance Court in Ukraine announced a ruling in favour of NJSC Ukrnafta, which found that the grant of the SC licence was irregular, which would mean the licence is invalid. Arkona disputes these claims and is defending such legal proceedings, and consequently has filed an appeal in the Appellate Administrative Court in Kyiv. Pending the outcome of the appeal process, the SC licence remains valid. The Group considers Arkona has strong grounds for a successful appeal since the subject matter of these legal proceedings, including the validity of the SC licence, has already been ruled upon by the Supreme Court of Ukraine in similar proceedings in October 2019 involving, inter alia, NJSC Ukrnafta and Arkona, in which the SC licence was held to be valid. As a result, the Group is confident that the challenge to the SC licence will be resolved in favour of Arkona.

Under the terms of the acquisition agreement for Arkona, half of the consideration payable (split into two equal tranches) was deferred and only payable on satisfaction of certain conditions including the favourable resolution of these legal proceedings, as well as certain other conditions, with the further proviso that if the conditions for payment of these deferred tranches are not satisfied, then neither of these tranches shall become payable. In addition, the acquisition agreement contains customary warranties and indemnities allowing the Group to seek recovery of consideration previously paid in the event of a breach of such warranties and indemnities, which include an adverse outcome of these legal proceedings.

As announced on 1 April 2020, the Memorandum of Understanding (the "Memorandum") for the potential acquisition of PJSC Science and Production Concern Ukrnaftinvest ("Ukrnaftinvest"), announced on 26 November 2019, expired and was consequently terminated as a result of the parties to the Memorandum, being (1) the Company and (2) Ms Lidiia Chernysh and Bolaso Investments Limited, being unable to reach a final agreement for such potential acquisition on the contemplated terms at the time. As a result, the provisions relating to such termination set out in the Memorandum became applicable, which included the refund of the deposit of $0.5 million previously paid to the sellers under the Memorandum. This remains to be paid. In addition, the Group made a series of advances, now totalling UAH47.3 million (approximately $1.8 million) to Ukrnaftinvest over the period from October 2019 to March 2020 in conjunction with the MOU. The payments were to fund certain operational works in preparation for a well which is scheduled under the work commitments for the licences held by Ukrnaftinvest, and these advances are also now repayable. Notwithstanding these provisions and the terminated Memorandum, the parties to it continue to be engaged in discussions in relation to the acquisition of Ukrnaftinvest, and the Group believes revised terms will be agreed, albeit there can be no certainty. Accordingly, these amounts are regarded as recoverable at the date of this announcement.

Outlook

During the remainder of 2020, the Group will continue to develop the MEX-GOL, SV and VAS fields. At the MEX-GOL and SV fields, the development programme includes continuing drilling operations of the SV-25 appraisal well, planning for a further well or sidetracking of an existing well in the SV field, investigating workover opportunities for other existing wells, installation of further compression equipment, further upgrading of the gas processing facilities and flow-line network, and remedial and upgrade work on existing wells, pipelines and other infrastructure.

At the VAS field, planning for the proposed new well to explore the VED prospect within the VAS licence area is continuing, and upgrades to the gas processing facilities, pipeline network and other infrastructure are planned.

Ongoing legislative reforms and the general stability 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, and to especially recognise their continuing efforts and professionalism during the current COVID-19 pandemic.

Sergii Glazunov
Chief Executive Officer

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Finance Review

The Group's financial performance in the first half of 2020 was shaped largely by two factors, the significant drop in average gas realisations materially affecting revenue but partly mitigated by the record level of gas production, and sale of gas from storage. Despite the challenges during the period, the Group was delighted to make a net profit of $1.2 million (1H 2019: $9.9 million).

Average gas realisations in the period were down 46% at $139/Mm^3 compared to $256/Mm^3 in 1H 2019, with condensate and LPG sales also down by 22% and 23% at $42/bbl and $40/bbl respectively (1H 2019: $256/Mm^3 (UAH6,921/Mm^3), $54/bbl and $52/bbl respectively).

Since the deregulation of the gas supply market in Ukraine in October 2015, the market price for gas has broadly correlated to the price of imported gas, which generally reflects trends in European gas prices. Gas prices are also subject to seasonal variation. During the first half of 2020, gas prices were depressed, as a combined result of lower international prices reducing the price of imported gas, and the unseasonally warm 2019/20 winter.

During the period from 1 July 2020 to 14 September 2020, the average realised gas, condensate and LPG prices were $159/Mm^3 (UAH4,352/Mm^3), $54/bbl and $65/bbl respectively.

Over and above the record level of production in the period, the Company also sold 24 MMm^3 of gas held in inventory at 31 December 2019. The inventory was valued at its cost of $3.0 million, all of which was recognised in the period as costs of sales, along with the associated revenue.

Revenue for the period, derived from the sale of the Group's Ukrainian gas, condensate and LPG production, was $24.7 million (1H 2019: $31.3 million). The gas price-driven fall in revenue also impacted cash generated from operations during the period, which was 59% lower at $7.2 million (1H 2019: $17.4 million).

Gross profit for the six months period to 30 June 2020 was $7.5 million (2019: $13.9 million).

Cost of sales for the period ended 30 June 2020 was marginally lower at $17.2 million (1H 2019: $17.3 million). Whilst broadly consistent with the same period in 2019, there were some significant intra-total movements: production taxes declined by 27% as a result of reduced gas revenues, in turn a function of the reduced gas prices as noted above; a 35% decrease in rent expense, a function of decreased gas prices; and the transmission tariff for use of the Ukrainian gas transit system of UAH101.93/Mm^3 of gas was applicable to the Group (1H 2019: UAH91.87/Mm^3), resulting in a $0.4 million (1H 2019: $0.4 million) charge in the period.

The subsoil tax rates applicable to gas production were stable during the period at 29% for gas produced from deposits at depths shallower than 5,000 metres and 14% for gas produced from deposits deeper than 5,000 metres, but reductions in the subsoil rates applicable to new wells and to condensate production were applicable, 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 shallower than 5,000 metres and from 14% to 6% for gas produced from deposits deeper than 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 shallower than 5,000 metres and from 21% to 16% for condensate produced from deposits deeper than 5,000 metres.

Administrative expenses for the period were higher at $3.9 million (1H 2019: $2.9 million), primarily as a result of: a 173% increase in consultancy fees mainly due to legal and advisory costs associated with the acquisition activity in the period; and a 61% increase in other expenses primarily in relation to increased costs for managing gas transportation and storage, and marketing.

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Other expenses in the period significantly increased due to charitable donations of $2.1 million (1H 2019: nil) for the supply of COVID-19-related medical equipment for Ukrainian authorities and charitable foundations.

The tax charge for the six month period ended 30 June 2020 of $1.4 million (1H 2019: $3.4 million charge) comprises a current tax charge of $1.4 million (1H 2019: $1.7 million charge) and a deferred tax charge of $10,000 (1H 2019: $1.7 million charge).

Capital investment of $8.8 million reflects investment in the Group's oil and gas development and production assets during the period (1H 2019: $6.7 million), primarily relating to the expenditure associated with the drilling of the SV-54 well.

Cash and cash equivalents held at 30 June 2020 were $54.2 million (31 December 2019: $62.5 million cash and cash equivalents). The Group's cash and cash equivalents balance at 13 September 2020 was $55.5 million, held as to $15.5 million equivalent in Ukrainian Hryvnia, and the balance of $40.0 million equivalent predominantly in US Dollars, Euros and Pounds Sterling.

Between early 2014 and 2018, the Ukrainian Hryvnia devalued significantly against the US Dollar, falling from UAH8.3/$1.00 on 1 January 2014 to UAH27.7/$1.00 on 31 December 2018, 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. In the first half of 2020, global financial markets have become extremely volatile as a combined function of a significant fall in oil prices and the effects of the COVID-19 pandemic, and the Ukrainian Hryvnia has weakened against the US Dollar with the exchange rate at 30 June 2020 being UAH26.69/$1.00. The impact of this devaluation was $10.8 million of foreign exchange losses (1H 2019: $4.9 million of foreign exchange gain). 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 period, 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 2020 and beyond. This is coupled with the fact that the Group is currently debt-free, and therefore has no debt covenants that may otherwise impede the ability to implement contingency plans if domestic and/or global circumstances dictate. This flexibility and ability to monitor and manage development plans and liquidity is a cornerstone of our planning, and underpins our assessments of the future. With cash resources at the end of the period in excess of $54 million, and annual running costs (both operating, and general and administrative) of less than $16 million, the Group remains in a very strong position should any local or global shocks occur to the industry and/or the Group.

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 its 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.	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 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.
Climate change	
Any near and medium-term continued warming of the Planet can have potentially increasing negative social, economic and environmental consequences, generally globally and regionally, and specifically in relation to the Group. The potential impacts include: loss of market; and increased costs of operation through increasing regulatory oversight and controls, including potential effective or actual loss of licence to operate. As a diligent operator aware and responsive to its good stewardship responsibilities, the Group not only needs to monitor and modify its business plans and operations to react to changes, but also to ensure its environmental footprint is as minimal as it can practicably be in managing the hydrocarbon resources the Group produces.	The Group's plans and actions include: assessing, reducing and/or mitigating its emissions in its operations; and identifying climate change-related risks and assessing the degree to which they can affect its business, including financial implications.
Operational and technical risks	
Quality, Health, Safety and Environment ("QHSE")	
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. As evidenced by events to date in 2020, pandemics also pose a risk to operations, by potential illness and threat to life of employees and contractors, and the associated disruptions in staffing levels, operations and supply chain.	The Group maintains QHSE policies and requires that management, staff and contractors adhere to these policies. The policies ensure that the Group meets Ukraine legislative standards in full and achieves international standards to the maximum extent possible. As a consequence of the COVID-19 pandemic, including the threat of any resurgences in the scale and impact of the virus, or new viruses, the Group is re-visiting processes and controls intended to ensure protection of all our stakeholders and minimise any disruption to our business. Whilst possible to only a limited extent in field operations, we have invested in technology that will allow many staff to work just as effectively from remote locations.
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	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

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.	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 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.	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 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	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.

outcomes for wells.	
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	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.

projects, income from production revenues is offset by capital investment.	
Currency risk	
Since the beginning of 2014, the Ukrainian Hryvnia significantly devalued against major world currencies, including the US Dollar, where it has fallen from UAH8.3/$1.00 on 1 January 2014 to UAH26.7/$1.00 on 30 June 2020 This devaluation has been 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, and volutility, 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 and Europe, 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 and Europe, 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	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

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.	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 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.	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.
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.enwell-energy.com.

Condensed Interim Consolidated Income Statement

	Note	**6 months ended 30 Jun 20 (unaudited) $000**	6 months ended 30 Jun 19 (unaudited) $000
Revenue	3	**24,708**	31,273
Cost of sales	4	**(17,203)**	(17,347)
Gross profit		**7,505**	13,926
Administrative expenses		**(3,852)**	(2,857)
Other operating income, (net)	5	**1,500**	2,619
Operating profit		**5,153**	13,688
Net impairment (losses)/gains on financial assets		**(29)**	11
Loss on disposal of subsidiary		**-**	(115)
Other expenses, (net)	6	**(1,925)**	(625)
Finance income		**-**	516
Finance costs		**(604)**	(220)
Profit before taxation		**2595**	13,255
Income tax expense	7	**(1,366)**	(3,368)
Profit for the period		**1,229**	9,887
Earnings per share (cents)			
Basic and diluted	8	**0.4c**	3.1c

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 20 (unaudited) $000	6 months ended 30 Jun 19 (unaudited) $000
Profit for the period	**1,229**	9,887
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Equity – foreign currency translation	**(10,841)**	4,919
Total other comprehensive income	**(10,841)**	4,919
Total comprehensive (loss)/income for the period	**(9,612)**	14,806

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 20 (unaudited) $000	31 Dec 19 (audited) $000
Assets			
Non-current assets			
Property, plant and equipment	9	**64,254**	70,052
Intangible assets	10	**12,680**	5,197
Right-of-use assets		**677**	940
Prepayment for shares	11	**500**	500
Corporation tax receivable		**29**	10
Deferred tax asset	7	**25**	-
		78,165	76,699
Current assets			
Inventories		**1,939**	4,813
Trade and other receivables	11	**10,199**	10,937
Cash and cash equivalents	14	**54,228**	62,474
		66,366	78,224
Total assets		**144,531**	154,923
Liabilities			
Current liabilities			
Trade and other payables		**(4,922)**	(3,968)
Lease liabilities		**(389)**	(454)
Corporation tax payable		**(450)**	(2,221)
		(5,761)	(6,643)
Net current assets		**60,605**	71,581
Non-current liabilities			
Provision for decommissioning	12	**(5,849)**	(7,447)
Lease liabilities		**(375)**	(515)
Defined benefit liability		**(418)**	(480)
Deferred tax liability	7	**(2,196)**	(2,288)
Other non-current liabilities	13	**(1,994)**	-
		(10,832)	(10,730)
Total liabilities		**(16,593)**	(17,373)
Net assets		**127,938**	137,550
Equity			
Called up share capital		**28,115**	28,115
Share premium account		**555,090**	555,090
Foreign exchange reserve		**(101,013)**	(90,172)
Other reserves		**4,273**	4,273
Accumulated losses		**(358,527)**	(359,756)
Total equity		**127,938**	137,550

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 2020 (audited)	**28,115**	**555,090**	**(3,204)**	**7,477**	**(90,172)**	**(359,756)**	**137,550**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**1,229**	**1,229**
Other comprehensive income							
- exchange differences	**-**	**-**	**-**	**-**	**(10,841)**	**-**	**(10,841)**
Total comprehensive loss	**-**	**-**	**-**	**-**	**(10,841)**	**1,229**	**(9,612)**
As at 30 June 2020 (unaudited)	**28,115**	**555,090**	**(3,204)**	**7,477**	**(101,013)**	**(358,527)**	**127,938**

	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

* 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.

Condensed Interim Consolidated Statement of Cash Flows

	Note	**6 months ended 30 Jun 20 (unaudited) $000**	6 months ended 30 Jun 19 (unaudited) $000
Operating activities			
Cash generated from operations	15	**11,036**	17,596
Charitable donations	6	**(2,057)**	-
Equipment rental income		**17**	15
Income tax paid		**(2,856)**	(2,811)
Interest received		**1,066**	2,636
Net cash inflow from operating activities		**7,206**	17,436
Investing activities			
Disposal of subsidiary		**-**	(7)
Purchase of property, plant and equipment		**(8,096)**	(4,105)
Purchase of intangible assets		**(4,428)**	(19)
Proceeds from sale of property, plant and equipment		**1**	16
Net cash outflow from investing activities		**(12,523)**	(4,115)
Financing activities			
Principal elements of lease payments		**(282)**	(197)
Net cash outflow from financing activities		**(282)**	(197)
Net increase in cash and cash equivalents		**(5,599)**	13,124
Cash and cash equivalents at beginning of the period	14	**62,474**	53,222
ECL* of cash and cash equivalents		**(6)**	(31)
Effect of foreign exchange rate changes		**(2,641)**	1,494
Cash and cash equivalents at end of the period	14	**54,228**	67,809

* Expected credit losses

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

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

Enwell Energy 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 30 June 2020, the Company's immediate parent company was Pelidona Services Limited, which is 100% owned by Lovitia Investments Limited, which is 100% owned by Mr Vadym Novynskyi. Accordingly, the Company is ultimately controlled by Mr Vadym Novynskyi.

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 lately.

In recent years, the Ukrainian economy demonstrated growth amid overall macroeconomics stabilisation supported by structural reforms, a rise in domestic investment, revival in household consumption, increase in industrial production, construction activity and improved environment on external markets.

Starting from the first quarter of 2020, the Ukrainian economy has been contracting following a decrease in industrial output and the COVID-19 outbreak, which started in March 2020. The National Bank of Ukraine ("NBU") follows an interest rate policy consistent with inflation targets and keeps the Ukrainian Hryvnia floating. The annualised inflation rate in Ukraine slowed to 2.0% in the first half of 2020 (compared with 3.6% in the first half of 2019 and 4.1% over the 2019 year), which allowed the NBU to continue key policy rate cuts after a lengthy period of rate increases – from 18.0% effective 7 September 2018 to 6.0% effective 12 June 2020, which is historically the lowest ever rate in Ukraine. At the same time, the NBU has madke appropriate market interventions in order to contain abnormal fluctuations of the exchange rate.

As at the date of this report, the official NBU exchange rate of the Ukrainian Hryvnia against the US Dollar was UAH28.06/$1.00, compared with UAH26.69/$1.00 as at 30 June 2020 and UAH23.69/$1.00 as at 31 December 2019. In 2019, the NBU cancelled some of the currency control restrictions, such as the required share of foreign currency proceeds subject to mandatory sale and the amount of dividend payments allowed to non-residents, which were implemented in 2014 – 2015.

In order to manage external debt repayments and secure access to external financing, Ukraine continues cooperation with international financial institutions, which are major creditors of its economy. In June 2020, the Executive Board of the International Monetary Fund approved a new 18-month Stand-by Arrangement ("SBA") for Ukraine with the total access of approximately $5 billion. The approval of the SBA enabled the immediate disbursement of approximately $2.1 billion, with the remainder being phased over four reviews. In July 2020, Ukraine and the European Union signed an agreement granting Ukraine €1.2 billion in macro-financial assistance funds. Ukraine has remained active on international debt capital markets to manage external debt maturity profile.

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

As a consequence of the COVID-19 pandemic, the Group is re-visiting processes and controls intended to ensure protection of all our stakeholders and minimise any disruption to our business. The Group is closely monitoring the current volatility in global financial markets, and the implications on the operational, economic and social environment within which the Group works caused by the COVID-19 pandemic, coupled with the recent sharp decline in hydrocarbon prices. As of the date hereof, there has been no operational disruption linked to the COVID-19 pandemic, and no material impact is currently envisaged on the Group's prospects. However, the Board and management remain acutely aware of the risks, and continue to take action to mitigate them where possible, not only protect the Group's staff and stakeholders but to minimise disruption to the Group's business. The Group has taken steps to continually monitor the health of its operational staff, including temperature checks for such staff at the commencement of each shift, as well as investing in technology to enable many staff to work from remote locations. The Group continues to reassess the medium-term forecasts based on current pricing and is confident that it has the resources to continue to deliver on its plans. Of course, it is not possible to forecast the duration of the pandemic's impact but the Group will remain focussed on monitoring and protecting its business through the period of uncertainty, as further explained below in the Going Concern section.

The unaudited condensed interim consolidated financial statements for the six month period ended 30 June 2020 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 2019, 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 2019 were approved by the Board of Directors on 8 April 2020 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.

Going Concern

The Group's business activities, together with the factors likely to affect its future operations, performance and position are set out in the Chairman's Statement, Chief Executive Officer's Statement and Finance Review above. The financial position of the Group, its cash flows and liquidity position are set out in these unaudited condensed interim consolidated financial statements.

The Directors have performed a robust assessment, including a review of the budget and forecast for the year ending 31 December 2020 and longer-term strategic forecasts, plans, and models including consideration of the principal risks faced by the Group and taking into account the ongoing impact of the global COVID-19 pandemic on the macroeconomic situation and any potential impact to operations and plans. In particular, the Directors considered a number of sensitivities on key assumptions which included downside (reverse stress) sensitivities in relation to production rates, gas price, fixed operating and administration costs and foreign exchange rates, which estimated the extent to which the key assumptions would need to be adversely impacted in order to eliminate the forecast headroom. Following this review, the Directors are satisfied that, taking into consideration reasonably possible downside sensitivities, the Group has adequate resources to continue to operate and meet its liabilities as they fall due for the foreseeable future, a period considered to be twelve months from the date of signing these unaudited condensed interim consolidated financial statements. The Directors noted that with cash resources at the end of the period in excess of $54 million, and annual running costs (both operating, and general and administrative) of less than $16 million, the Group remains in a very strong position should any local or global shocks occur to the industry and/or the Group. For these reasons, the Directors continue to adopt the Going Concern Basis for preparing the unaudited condensed interim consolidated financial statements.

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 2019, 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 following amendments to standard, which is relevant to the Group's condensed consolidated interim financial statement, have been issued:

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

The Group had to changed its accounting policies as a result of the adoption of amendments to IFRS 3, however this change had no impact on the reporting period.

Amendments to IFRS 7, IFRS 9 and IAS 39 regarding interest rate benchmark reform» and amendments to IAS 1 and IAS 8 regarding definition of material did not have a material impact on this unaudited condensed consolidated interim financial statements.

Significant accounting judgements and 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 2019 with certain updates described below.

Significant judgement

Acquisition of LLC Arkona Gas-Energy

The Group gained control over LLC Arkona Gas-Energy ("Arkona") on 24 March 2020. The transaction is treated as an asset acquisition as there were no employees and processes acquired, which could be used to produce outputs. The same treatment is achieved by applying the concentration test under amended IFRS 3 Business Combinations. The test revealed that the fair value acquired, being the Svystunivsko-Chervonolutske licence ("SC Licence"), comprises the vast amount (more than 90%) of the consideration. The SC Licence is classified as the exploration and evaluation intangible asset at the acquisition date. Management believes there are no impairment indicators which exist at the reporting date due to the following:

- the SC Licence is valid until 18 May 2037;
- further exploration and evaluation plans are included in the Group's Budgets.

However, NJSC Ukrnafta, as claimant, has issued legal proceedings against Arkona, as defendant, in which NJSC Ukrnafta has made claims about the procedure involved in the grant of the SC Licence to Arkona in May 2017 (see announcements dated 3 July and 31 July 2020). NJSC Ukrnafta was the holder of a previous licence over this area which expired prior to the grant of the SC Licence. In early July 2020, the First Instance Court in Ukraine announced a ruling in favour of NJSC Ukrnafta, which found that the grant of the SC Licence was irregular, which would mean the SC Licence is invalid. Arkona disputes these claims and is defending such legal proceedings, and consequently has filed an appeal in the Appellate Administrative Court in Kyiv. The Group considers Arkona has strong grounds for a successful appeal since the subject matter of these legal proceedings, including the validity of the SC Licence, has already been ruled upon by the Supreme Court of Ukraine in similar proceedings in October 2019 involving, inter alia, NJSC Ukrnafta and Arkona, and in which the SC Licence was held to be valid. Pending the outcome of the appeal process, the SC Licence remains valid. The current legal proceedings are not an indicator of impairment of the SC Licence as the risk is assessed to be remote as at 30 June 2020.

Under the terms of the sale and purchase agreement (the "SPA") for Arkona, half of the consideration payable (split into two equal tranches) was deferred and only payable on satisfaction of certain conditions including the favourable resolution of these legal proceedings, as well as certain other conditions, with the further proviso that if the conditions for payment of these deferred tranches are not satisfied, then neither of these tranches shall become payable. In addition, the SPA contains customary warranties and indemnities allowing the Group to seek recovery of consideration paid in the event of a breach of such warranties and indemnities.

The following items comprise Arkona's assets and liabilities at their fair value at the date of acquisition:

	$000
Property, plant and equipment	88
Trade and other receivables	35
Trade and other payables	(291)
Net assets at the acquisition date	**(168)**
Fair value of consideration (1st, 2nd and 3rd tranches)	**8,163**
Fair value of licence at the acquisition date	**8,331**

Under the SPA, the total consideration payable is $8,630,000, with payment divided into three tranches. The first tranche of $4,153,000 was paid on 24 March 2020 upon completion of the acquisition of 100% of the issued share capital of Arkona.

The second and third tranches of $2,157,500 respectively are contingent on satisfaction of the certain conditions, including the favourable resolution of the abovementioned legal proceedings brought by NJSC Ukrnafta against Arkona relating to the SC Licence (the "Licence Case"), the absence of any contractual, warranty or indemnity claims, and the delivery of certain documentation by the sellers of Arkona, with proviso that if such conditions are not satisfied, then neither the second tranche nor the third tranche shall become payable.

The second tranche equals the fair value at the date of acquisition and the estimated date of the relevant Court's decision in the Licence Case is assumed to be before 31 December 2020.

The third tranche is payable in twelve months from the date of payment of the second tranche. At the date of acquisition, the fair value of the third tranche amounts to the discounted value at the effective interest rate, being the Company's effective borrowing rate of 9%. The Group recognised $306,000 of discounting effect calculated against the value of the acquired assets.

The total consideration comprising the three tranches estimated at the date of acquisition amounts to $8,163,000. The outstanding balance as at 30 June 2020, consists of the non-current portion of the liability of $1,852,000 (see Note 13) and the current portion of $2,158,000 reflected in trade and other payables. Provided the date of payment of the second tranche occurs 6 months later than the abovementioned date (31 December 2020), the additional discounting effect will amount to $301,000.

The second and third tranches are contingent on the outcome of the Licence Case and thus constitute a contingent consideration. Management made an accounting policy choice to use the cost accumulation approach to account for the contingent consideration based on the estimated payment amount at the acquisition date. Subsequent to the acquisition date, the liability is not remeasured until the change becomes at least highly probable. Any further remeasurement of the liability would be recognised in the Income Statement to the extent of unwinding of the discount and would adjust the carrying value of the acquired asset or the remeasurement of expected payment amount. The payment would not be probable if the Licence Case is expected to be lost, in which case the full amount of the SC Licence is likely to be impaired.

At the acquisition date and as at 30 June 2020, Management assumes that all three tranches will be payable as there are sufficient legal grounds for challenging and successfully appealing the First Instance Court Decision in the Licence Case (see Note 16).

Estimates

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, SV and VAS gas and condensate fields

The impairment assessment carried out at 30 June 2020 has not resulted in an impairment loss. Further details of this assessment, including the sensitivity to the above assumptions, are set out in Note 7.

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, which is assessed to be 2038 and 2042 respectively, based on the assessment contained in the DeGolyer & MacNaughton reserves report for these fields.

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 2020 was 4.67% (31 December 2019: 3.68%). 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 2020 resulted from the revision of the estimated costs of decommissioning (increase of $75,000 in provision) and the increase in the discount rate applied (decrease of $978,000 in provision). The increase in discount rate at 30 June 2020 resulted from the increase in Ukrainian Eurobonds yield and the respective increase 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, 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 2020 would be $10,128,000 (31 December 2019: $11,564,000).

Recognition of Deferred Tax Asset

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. This requires judgement for forecasting future profits. Further details of the deferred tax assets recognised can be found in Note 7.

3. 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 and amortisation.

6 months ended 30 June 2020 (unaudited)

	Ukraine $000	United Kingdom $000	Total $000
Revenue			
Gas sales	**17,974**	**-**	**17,974**
Condensate sales	**5,232**	**-**	**5,232**
Liquefied Petroleum Gas sales	**1,502**	**-**	**1,502**
Total revenue	**24,708**	**-**	**24,708**
Segment result	**11,109**	**827**	**11,936**
Depreciation and amortisation	**(6,783)**	**-**	**(6,783)**
Operating profit			**5,153**
Segment assets	**106,494**	**38,037**	**144,531**
Capital additions*	**17,102**	**-**	**17,102**

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

*Comprises additions to property, plant and equipment and intangible assets (Notes 7 and 8).

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.

4. Cost of Sales

	6 months ended 30 Jun 20 (unaudited) $000	6 months ended 30 Jun 19 (unaudited) $000
Production taxes	**4,875**	6,660
Depreciation of property, plant and equipment	**6,176**	4,297
Rent expenses	**2,121**	3,256
Staff costs	**1,837**	1,161
Cost of inventories recognised as an expense	**624**	688
Transmission tariff for Ukrainian gas system	**421**	336
Amortisation of mineral reserves	**253**	244
Other expenses	**896**	705
	17,203	17,347

5. Other operating income/(expenses), (net)

	6 months ended 30 Jun 20 (unaudited) $000	6 months ended 30 Jun 19 (unaudited) $000
Interest income on cash and cash equivalents	**1,023**	2,792
Reversal of accruals	**263**	48
Contractor penalties applied	**15**	15
Other operating income/(losses), net	**199**	(236)
	1,500	2,619

6. Other income/(expenses), (net)

	6 months ended 30 Jun 20 (unaudited) $000	6 months ended 30 Jun 19 (unaudited) $000
Charitable donations	**(2,057)**	(51)
Net foreign exchange gains/(losses)	**194**	(443)
Other income/(expenses), (net)	**(62)**	(131)
	(1,925)	(625)

Charitable donations for the 6 month period ended 30 June 2020 comprise the supply of medical equipment and COVID-19 tests to Ukrainian authorities and charitable foundations. Charitable donations are disclosed in line with the accounting policy of the Group as other expenses.

7. Taxation

The income tax charge of $1,366,000 for the six month period ended 30 June 2020 relates to a current tax charge of $1,356,000 and a deferred tax charge of $10,000 (1H 2019: current tax charge of $1,684,000 and deferred tax charge of $1,684,000).

The movement in the period was as follows:

	6 months ended 30 Jun 20 (unaudited) $000	6 months ended 30 Jun 19 (unaudited) $000
Deferred tax asset recognised on tax losses		
At beginning of the period	**-**	2,134
Charged to Income Statement - current year	**-**	(2,134)
At end of the period	**-**	-
Deferred tax (liability)/asset recognised relating to development and production assets at MEX-GOL-SV fields and provision for decommissioning		
At beginning of the period	**(2,141)**	1,149
(Charged)/credited to Income Statement - current period	**(170)**	209
Effect of exchange difference	**115**	6
At end of the period	**(2,196)**	1,364
Deferred tax asset/(liability) recognised relating to development and production assets at VAS field and provision for decommissioning		
At beginning of the period	**(147)**	(504)
Credited to Income Statement - current period	**160**	241
Effect of exchange difference	**12**	(21)
At end of the period	**25**	(284)

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.

The deferred tax asset relating to the Group's provision for decommissioning at 30 June 2020 of $190,000 (31 December 2019: $326,000) 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 liability relating to the Group's development and production assets at the MEX-GOL and SV fields at 30 June 2020 of $2,386,000 (31 December 2019: $2,467,000) 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 2020 of $280,000 (31 December 2019: $329,000) 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 2020 of $255,000 (31 December 2019: $476,000) 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

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17% as previously enacted) and the effect of these change is included in these unaudited condensed interim consolidated financial statements.

Double tax treaty

On 30 October 2019, the Parliament of Ukraine ratified a new Protocol amending the Double Tax Treaties between Ukraine and the United Kingdom. This Protocol increased withholding tax rates from 0% to 5% with effect from 1 January 2020. The Group accounts for and pays withholding tax on current amounts of interests at the moment the interest is paid.

8. Earnings 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 2020 and 30 June 2019 and 320,637,836 ordinary shares, being the average number of shares in issue for the period. There are no dilutive instruments.

9. Property, Plant and Equipment

	6 months ended 30 Jun 20 (unaudited)				6 months ended 30 Jun 19 (unaudited)			
	Oil and gas development and production assets Ukraine	**Oil and gas exploration and evaluation assets**	**Other fixed assets**	**Total**	Oil and gas development and production assets Ukraine	Oil and gas exploration and evaluation assets	Other fixed assets	Total
	$000	**$000**	**$000**	**$000**	$000	$000	$000	$000
Cost								
At beginning of the period	**143,127**	**2,571**	**2,103**	**147,801**	104,809	1,259	1,293	107,361
Additions	**8,199**	**172**	**386**	**8,757**	5,791	796	68	6,655
Change in decommissioning provision	**(903)**	**-**	**-**	**(903)**	1,058	-	-	1,058
Disposals	**(117)**	**-**	**-**	**(117)**	(51)	-	-	(51)
Exchange differences	**(16, 216)**	**(279)**	**(377)**	**(16,872)**	6,292	117	45	6,454
At end of the period	**134,090**	**2,464**	**2,112**	**138, 666**	117,899	2,172	1,406	121,477
Accumulated depreciation and impairment								
At beginning of the period	**76,802**	**-**	**947**	**77,749**	56,567	-	602	57,169
Charge for the period	**5,268**	**-**	**201**	**5,469**	4,388	-	103	4,491
Disposals	**(31)**	**-**	**(2)**	**(33)**	(17)	-	(4)	(21)
Exchange differences	**(8,590)**	**-**	**(183)**	**(8,773)**	3,409	-	39	3,448
At end of the period	**73,449**	**-**	**963**	**74,412**	64,347	-	740	65,087
Net book value at the beginning of the period	**66,325**	**2,571**	**1,156**	**70,052**	48,242	1,259	691	50,192
Net book value at end of the period	**60,641**	**2,464**	**1,149**	**64, 254**	53,552	2,172	666	56,390

In accordance with the Group's accounting policies, oil and gas development and production assets are tested for impairment at each balance sheet date. The Group determines the recoverable amount of its oil and gas development and production assets based on a Fair Value Less Costs of Disposal ("FVLCD") approach using a discounted cash flow methodology, where the cash flows are derived based on estimates that a typical market participant would use in valuing such assets.

The impairment assessment carried out at 30 June 2020 has not resulted in an impairment loss.

The key assumptions on which the Group has based its determination of FVLCD for its oil and gas development and production assets and to which these CGU's recoverable amounts are most sensitive are described below:

(i) *Commodity prices* – the model assumes gas prices of \$129/Mm^3 (UAH3.443/Mm^3) in 2020 increasing to \$279/Mm^3 (UAH7,448/Mm^3) during 2021 – 2042 for the MEX-GOL and SV gas and condensate fields and to \$259/Mm^3 (UAH6,909Mm^3) during 2021 – 2028 for the VAS gas and condensate field. The prices were estimated based on the price of recent Group transactions, Central European hub futures and the forecast of natural gas price dynamics for Europe published by the World Bank.

(ii) *Discount rate* - reflects the current market assessment of the time value of money and risks specific to the assets. The discount rate has been determined as the post-tax weighted average cost of capital based on observable inputs and inputs from third party financial analysts. For 2020 and onwards, the discount rate applied is 11.7% (11.3% during previous measurement of the recoverable amount as at 31 December 2019). The discount rate and future cash flows are determined in real terms, i.e. they do not take into account the impact of the estimated commodity price index during the period of projection.

(iii) *Production levels and Reserves, MEX-GOL and SV fields* – production levels at the MEX-GOL and SV fields are derived from the estimate of remaining proven plus probable reserves of 50.0 MMboe assessed in the report prepared by DeGolyer & MacNaughton as at 31 December 2017. This report includes estimated production volumes, including from new wells, over the remaining economic life of the MEX-GOL and SV fields. The estimated production is based on the Group's revised field development plan, which includes the drilling of 24 new wells. Estimating oil and gas reserves is a complex process requiring the knowledge and experience of reservoir engineers. The quality of the estimate of proved plus probable reserves depends on the availability, completeness, and accuracy of data needed to develop the estimate, including production history available, and on the experience and judgement of the reservoir engineer. Estimates of proved plus probable reserves inevitably change over time as additional data become available and are taken into account. The magnitude of changes in these estimates can be substantial.

(iv) *Production levels and Reserves, VAS field* – production levels at the VAS field are derived from the estimate of remaining proven plus probable reserves of 3.1 MMboe assessed in the report prepared by DeGolyer & MacNaughton as at 31 December 2018. The estimated production is based on the Group's revised field development plan, which includes the drilling of three new wells. The quality of the estimate of proved plus probable reserves depends on the availability, completeness, and accuracy of data needed to develop the estimate, including production history available, and on the experience and judgement of the reservoir engineer. Estimates of proved plus probable reserves inevitably change over time as additional data become available and are taken into account. The magnitude of changes in these estimates can be substantial.

(v) *Production taxes* - for existing wells, the Group assumed production tax rates of 29% for gas and 45% for condensate extracted from deposits up to depths of 5,000 metres and 14% for gas and 21% for condensate extracted from deposits deeper than 5,000 metres. From 1 January 2019, production

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tax rates for condensate produced from all wells was reduced from 45% to 31% for condensate produced from deposits shallower than 5,000 metres and from 21% to 16% for condensate produced from deposits deeper than 5,000 metres. For new wells drilled after 1 January 2018, production tax rates were reduced to 12% for gas produced from deposits at depths shallower than 5,000 metres and to 6% for gas produced from deposits deeper than 5,000 metres, effective for the period 2018 - 2022.

(vi) *Capital expenditures, MEX-GOL and SV gas and condensate fields* - management assumed that most capital expenditures are to be incurred during 2020 – 2026. A capital expenditure allowance of $746,000 per year is assumed for maintenance of the development and producing assets of the MEX-GOL and SV gas and condensate fields.

(vii) *Capital expenditures, VAS gas and condensate fields* - management assumed that most capital expenditures are to be incurred during 2020-2023. A capital expenditure allowance of $290,000 per year is assumed for maintenance of the development and producing assets of the VAS gas and condensate field.

(viii) *Life of field, MEX-GOL and SV fields* - the current licences, which are due to expire in 2024, can be extended under applicable legislation in Ukraine until the end of the economic life of the field, which is assessed to be 2038 for the MEX-GOL field and 2042 for the SV field, based on the assessment contained in the DeGolyer & MacNaughton reserves report. No application for such an extension has been made at the date of this report, but the Group considers the assumption to be reasonable based on its intention to seek such extensions in due course and that the Group is legally entitled to request such extensions. However, if the extensions were not granted, it would result in a further reduction of $291,430,000 in the recoverable amount.

(ix) *Life of field, VAS field* – according to the DeGolyer & MacNaughton reserves report, the economic life of the VAS field is limited to 2028. However, after additional drilling on the VED area of the licence, management plans to undertake a further reserves assessment.

The Group's discounted cash flow model for the VAS field in US Dollars, flexed for sensitivities, produced the following results:

	Recoverable amount	**Net book value***	**Headroom / (Shortfall)**
	$000	**$000**	**$000**
30 June 2020	14,200	11,400	2,800
Sensitivities:			
10% reduction in gas price	11,350	11,400	(50)
10% increase in gas price	17,100	11,400	5,700
Breakeven gas price $117/Mm³	11,550	11,400	150
Breakeven flow rates 71 thsm³/day for all wells	11,620	11,400	220
Breakeven discount rate 15,8%	11,420	11,400	20

*Net book value of the VAS asset is derived from property, plant and equipment, mineral reserve rights and other intangible assets (Note 8).

The Group's discounted cash flow model for the MEX-GOL and SV fields in Ukrainian Hryvnia is not sensitive.

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10. Intangible Assets

	6 months ended 30 Jun 20 (unaudited)				6 months ended 30 Jun 19 (unaudited)		
	Mineral reserve rights $000	**Exploration and evaluation intangible assets $000**	**Other intangible assets $000**	**Total $000**	Mineral reserve rights $000	Other intangible assets $000	Total $000
Cost							
At beginning of the period	**7,843**	**-**	**572**	**8,415**	6,709	330	7,039
Additions	**-**	**8,331**	**101**	**8,432**	-	67	67
Disposals	**-**	**-**	**(53)**	**(53)**			
Exchange differences	**(884)**	**16**	**(52)**	**(920)**	390	21	411
At end of the period	**6,959**	**8,347**	**568**	**15,874**	7,099	418	7,517
Accumulated amortisation and impairment							
At beginning of the period	**2,851**	**-**	**367**	**3,218**	1,965	194	2,159
Amortisation charge for the period	**253**	**-**	**78**	**331**	244	57	301
Disposals	**-**		**(53)**	**(53)**			
Exchange differences	**(274)**	**-**	**(28)**	**(302)**	121	6	127
At end of the period	**2,830**	**-**	**364**	**3,194**	2,330	257	2,587
Net book value at beginning of the period	**4,992**	**-**	**205**	**5,197**	4,744	136	4,880
Net book value at end of the period	**4,129**	**8,347**	**204**	**12,680**	4,769	161	4,930

Intangible assets consist mainly of the hydrocarbon production licence relating to the VAS gas and condensate field which is held by one of the Group's subsidiaries LLC Prom-Enerho Produkt and a new hydrocarbon production licence relating to the Svystunivsko-Chervonolutske ("SC") gas and condensate field which is held by LLC Arkona Gas-Energy. The Group amortises the hydrocarbon production licence relating to the VAS gas and condensate field using the straight-line method over the term of the economic life of the VAS field until 2028. The hydrocarbon production licence relating to the SC gas and condensate field is not amortised due to being in an exploration and evaluation stage.

In accordance with the Group's accounting policies, intangible assets are tested for impairment at each balance sheet date as part of the impairment testing of the Group's oil and gas development and production assets. Pursuant to the results of the impairment tests performed, there is no impairment of the Group's intangible assets as at 30 June 2020 (Note 9).

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11. Trade and Other Receivables

	30 Jun 20 (unaudited) $000	31 Dec 19 (audited) $000
Trade receivables	**1,631**	2,881
Other financial receivables	**1,816**	1,718
Less credit loss allowance	**(150)**	(155)
Total financial receivables	**3,297**	4,444
Prepayments and accrued income	**5,330**	5,959
VAT receivable	**1,156**	96
Other receivables	**416**	438
Total trade and other receivables	**10,199**	10,937

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. 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 $4,249,000 relating to the development of the SV field (31 December 2019: $3,987,000 relating to the development of the SV field and $1,094,000 relating to development of the VAS field).

The deposit of $500,000 paid under the Memorandum of Understanding dated 21 November 2019 for the acquisition of the entire share capital of PJSC Science and Production Concern Ukrnaftinvest remains a receivable as at the date of this announcement, as do the funds of UAH47.3 million (approximately $1.8 million) advanced to PJSC Science and Production Concern Ukrnaftinvest by the Group.

12. Provision for Decommissioning

	6 months ended 30 Jun 20 (unaudited) $000	6 months ended 30 Jun 19 (unaudited) $000
At beginning of the period	**7,447**	3,137
Amounts provided	**-**	141
Unwinding of discount	**94**	128
Change in estimate	**(903)**	917
Effect of exchange difference	**(789)**	219
At end of the period	**5,849**	4,542

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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 $5,849,000 (31 December 2019: $7,447,000) 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 2020 resulted from the revision of the estimated costs of decommissioning (increase of $75,000 in provision) and the increase in the discount rate applied (decrease of $978,000 in provision).

13. Other non-current liabilities

Other non-current liabilities as at 30 June 2020, consist of the long-term portion of the deferred consideration for the acquisition of LLC Arkona Gas-Energy of $1,851,861 (Note 2) and the long-term obligations for the State special purpose fund of $142,000 measured at amortised cost using an interest rate of 20%.

14. 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 20 (unaudited) $000	31 Dec 19 (audited) $000
Financial assets		
Cash and cash equivalents	**54,228**	62,474
Trade and other receivables	**3,297**	4,444
Prepayment for shares	**500**	500
	58,025	67,418
Financial Liabilities		
Lease liabilities	**764**	969
Trade payables	**175**	277
Accruals	**4,748**	1,018
	5,687	2,264

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.

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At 30 June 2020, the Group held cash and cash equivalents in the following currencies:

	30 Jun 20 (unaudited) $000	31 Dec 19 (audited) $000
US Dollars	**39,316**	44,306
Ukrainian Hryvnia	**14,686**	17,881
British Pounds	**222**	257
Euros	**4**	30
	54,228	62,474

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, Ukraine and the United Kingdom.

15. Reconciliation of Operating Profit to Operating Cash Flow

	6 months ended 30 Jun 20 (unaudited) $000	6 months ended 30 Jun 19 (unaudited) $000
Operating profit	**5,153**	13,688
Depreciation and amortisation	**6,783**	4,928
Less interest income recorded within operating profit	**(1,023)**	(2,792)
Provision for VAT repayment	**-**	405
Fines and penalties received	**(1)**	(15)
Loss from credit loss allowance	**-**	41
Loss from write off of non-current assets	**81**	-
Reversal of loss allowance on other financial assets	**-**	(11)
Gain on sales of current assets, net	**(5)**	(18)
Decrease in provisions	**(169)**	(9)
Decrease/(increase) in inventory	**2,106**	(742)
Decrease/(increase) in receivables	**(1,032)**	3,251
(Decrease)/increase in payables	**(857)**	(1,130)
Cash generated from operations	**11,036**	17,596

16. 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 2020, were $5,207,000 (31 December 2019: $2,306,000).

During 2010 - 2020, 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)

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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 2020 (31 December 2019: 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.

There are current legal proceedings between NJSC Ukrnafta as claimant and Arkona as defendant, relating to claims made by NJSC Ukrnafta about the procedure involved in the grant of the SC Licence to Arkona in May 2017. NJSC Ukrnafta was the holder of a previous licence over this area which expired prior to the grant of the SC Licence. Arkona is defending the claims in such legal proceedings and asserts that the claims are unwarranted and without merit. In early July 2020, the First Instance Court in Ukraine made a ruling in favour of NJSC Ukrnafta that the grant of the SC Licence was irregular, which would mean the SC Licence is invalid. The Company and Arkona have carefully reviewed this decision and written judgement with their legal advisers in Ukraine, and consider there are strong grounds for a successful appeal. This view is supported by the fact that the subject matter of these legal proceedings, including the validity of the SC Licence, has already been ruled upon by the Supreme Court of Ukraine in similar proceedings in October 2019 involving, inter alia, NJSC Ukrnafta and Arkona, and in which the SC Licence was held to be valid. Accordingly, an appeal has been filed by Arkona in the Appellate Administrative Court in Kyiv. Pending the outcome of the appeal process, the SC Licence remains valid. Under the terms of the acquisition agreement for Arkona, half of the consideration payable (split into two equal tranches) was deferred and only payable on satisfaction of certain conditions including the favourable resolution of these legal proceedings, as well as certain other conditions, with the further provision that if the conditions for payment of these deferred tranches are not satisfied, then neither of these tranches shall become payable and the full amount of the SC Licence is likely to be impaired.

17. 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 2020 was $532,000 (six month period ended 30 June 2019: $369,000, and year ended 31 December 2019: $977,000).

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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 20 (unaudited) $000	6 months ended 30 Jun 19 (unaudited) $000
Sale of goods/services	**17,752**	23,185
Purchase of goods/services	**461**	502
Amounts owed by related parties	**1,490**	1,683
Amounts owed to related parties	**347**	670

All related party transactions were with subsidiaries of the ultimate Parent Company, and primarily relate to the sale of gas to LLC Smart Energy, 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 2020, the Company's immediate parent company was Pelidona Services Limited, which is 100% owned by Lovitia Investments Limited, which is 100% owned by Mr Vadym Novynskyi. Accordingly, the Company was ultimately controlled by Mr Vadym Novynskyi.

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

	6 months ended 30 Jun 20 (unaudited) $000	6 months ended 30 Jun 19 (unaudited) $000
Bank charges	**1**	**1**
Closing cash balance	**13**	**-**

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

18. Events occurring after the Reporting Period

In early July 2020, the First Instance Court in Ukraine made a ruling in favour of NJSC Ukrnafta that the grant of the SC Licence held by Arkona was irregular, which would mean the SC Licence is invalid. The Company and Arkona have carefully reviewed this decision with their legal advisers in Ukraine, and consider there are strong grounds for a successful appeal. This view is supported by the fact that the subject matter of these legal proceedings, including the validity of the Licence, has already been ruled upon by the Supreme Court of Ukraine in similar proceedings in October 2019 involving, inter alia, NJSC Ukrnafta and Arkona, and in which the SC Licence was held to be valid. Accordingly, an appeal has been filed by Arkona in the Appellate Administrative Court in Kyiv. Pending the outcome of the appeal process, the SC Licence remains valid.

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Negotiations are continuing between the Group and the shareholders of PJSC Science and Production Concern Ukrnaftinvest in relation to the acquisition of the entire share capital of PJSC Science and Production Concern Ukrnaftinvest, and the Group believes revised terms will be mutually agreed for the Group to acquire PJSC Science and Production Concern Ukrnaftinvest, albeit there can be no certainty.