

Relentless Focus

Cash generated from operations 2021:

\$77.7m

Year-end cash resources 2021:

\$92.5m

Built-in Resilience

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Strategic Report

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We are an oil and gas business focused on careful, disciplined growth in our operations in Ukraine. Our success is founded on rigorous planning, careful use of cutting-edge technology, responsible resource stewardship, and a highly experienced team. Meet an energy business that's listening to its stakeholders.

Highlights

Production

Up 4.2%

4,730_{boepd}

(2020: 4,541 boepd)

Revenue

Up 157%

\$121.4m

(2020: \$47.3 million)

Cash generated from operations

Up 226%

\$77.6m

(2020: \$23.8 million)

Operational

- Aggregate average daily production of 4,730 boepd (2020: 4,541 boepd), an increase of approximately 4.2%
- SV-25 appraisal well successfully completed and brought on production in February 2021
- SV-31 development well successfully completed and brought on production in May 2022
- No significant disruption to the Group's operations arising from the COVID-19 pandemic to date

Financial

- Revenue of \$121.4 million (2020: \$47.3 million), up 157% as a result of significantly higher gas prices and increased production rates
- Gross profit of \$73.9 million (2020: \$15.7 million), up 371%
- Operating profit of \$66.2 million (2020: \$9.8 million), up 576%
- Cash generated from operations of \$77.6 million (2020: \$23.8 million), up 226% as a result of significantly higher gas prices and increased production rates
- Net profit of \$51.1 million (2020: \$3.2 million), up 1,497%
- Cash, cash equivalents and short-term investments of \$92.5 million as at 31 December 2021 (2020: \$61.0 million), and of \$76.5 million as at 24 June 2022
- Average realised gas, condensate and LPG prices in Ukraine were much higher, particularly gas prices, at \$432/Mm³ (UAH11,677/Mm³), \$69/bbl and \$80/bbl respectively (2020: \$136/Mm³ (UAH3,618/Mm³) gas, \$46/bbl condensate and \$46/bbl LPG)
- Reduction of capital completed through the cancellation of the Company's entire share premium account, which has created distributable reserves, thereby enabling the possibility of the Company making distributions to shareholders in the future

Outlook

- The Russian invasion of Ukraine in February 2022 has had a significant impact on all aspects of life in Ukraine, including the Group's business and operations, with all field operations being suspended from 24 February to 15 March 2022, after which production operations and some field activities resumed at the MEX-GOL and SV fields, while all operations remain suspended at the VAS field and SC licence area. The scale and duration of disruption to the Group's business is currently unknown, and there remains significant uncertainty about the outcome of the conflict in Ukraine
- The Group retains the majority (77% as at 24 June 2022) of its cash outside Ukraine, which enhances the Group's ability to navigate the current risk environment for the foreseeable future, and provides a material buffer to any further disruptions to the Group's operations
- Subject to the Group's ability to operate safely, development work planned for 2022:
 - at the MEX-GOL and SV fields includes: a workover of the SV-29 well to test alternative horizons; and drilling of two new wells at the MEX-GOL field
 - at the SC licence includes: completing the drilling of the SC-4 well; processing and interpretation of the recently acquired 150 km² of 3D seismic; and planning for the development of the licence area
 - at the VAS field includes: planning for a new well to explore the VED prospect within the VAS licence area; and maintenance of the gas processing facilities, flow-line network and other field infrastructure
- 2022 development programme expected to be funded from existing cash resources and operational cash flow

Operating expenditure
per boe

\$13.60

Cash resources
year-end

\$92.5m

2P reserves

59 MMboe

Rigorous control
of our production
processes and
costs

Capital structure
to implement
our near-term
strategy

Organic and
acquisition
reserves growth

Where We Operate



MEX-GOL & SV Fields

The licences for the MEX-GOL and SV fields cover a total area of 253 km². The remaining 2P reserves are 44.7 MMboe, with 3C contingent resources of 25.3 MMboe.

VAS Field

The VAS licence covers an area of 33.2 km², and has remaining 2P reserves of 2.4 MMboe and 3C contingent resources of 0.6 MMboe, while prospective resources in the VED prospect are estimated at 7.7 MMboe.

SC Licence

The SC licence covers an area of 97 km², and has remaining 2P reserves of 12.1 MMboe and 3C contingent resources of 15.0 MMboe.

Working Interest %
100

2P Reserves MMboe
44.7

Working Interest %
100

2P Reserves MMboe
2.4

Working Interest %
100

2P Reserves MMboe
12.1

We operate exclusively in Ukraine, which has a significant available gas resource, particularly in the Dnieper Donets basin where our licences are located, with a national total of in excess of 35 Tscf.

Chairman's Statement



The Group is taking, and will continue to take, all measures available to protect and safeguard its personnel and business, with the safety and wellbeing of its personnel and contractors being paramount.



I present the 2021 Annual Report and Financial Statements with very mixed emotions this year. While the Group achieved an excellent performance during 2021, and avoided any significant operational disruption as a result of the COVID-19 pandemic, the invasion of Ukraine by Russia in February 2022 has created a very different and worrying outlook in respect of both the current and future situation in Ukraine, and I am greatly saddened to observe the terrible events occurring there.

The invasion has had a significant impact on all aspects of life in Ukraine, including the Group's business and operations, with all field operations being suspended from 24 February to 15 March 2022, after which production operations and some limited field activities resumed at the MEX-GOL and SV fields, while all operations remain suspended at the VAS field and SC licence area. The scale and duration of disruption to the Group's business is currently unknown, and there remains significant uncertainty about the outcome of the ongoing conflict in Ukraine.

During 2021, the Group continued to make good progress in the development of the MEX-GOL, SV and VAS gas and condensate fields and SC licence in north-eastern Ukraine, and has delivered an exceptional financial performance. The SV-25 appraisal well was completed and brought on production in February 2021, and the SV-31 development well was completed and brought on production in May 2022.



Chris Hopkinson
Chairman

Drilling of the SV-29 development well was completed and two horizons in the V-22 Visean formation were perforated and tested, but while there were intermittent gas flows, stabilised production was not achieved and so alternative horizons will be perforated and tested when possible. The SC-4 appraisal well was nearing its target depth when operations were suspended.

Aggregate average daily production from the MEX-GOL, SV and VAS fields during 2021 was 4,730 boepd, which compares favourably with an aggregate daily production rate of 4,541 boepd during 2020, an increase of approximately 4.2%. However, issues with water ingress at the MEX-109 and SV-2 wells in Q4 2021, meant that these wells were taken offline and workover operations were underway when field operations were suspended due to the invasion. The loss of production from these wells had a material impact on production rates in Q4 2021. At the VAS field production was steady, but lower than during 2020, after a decline in production from the VAS-10 well.

Largely as a result of the dramatic rise in gas prices during the year, the Group's net profit increased hugely to \$51.1 million (2020: \$3.2 million) as did operating profit to \$66.2 million (2020: \$9.8 million) and cash generated from operations to \$77.6 million (2020: \$23.8 million).

This significant level of cash generation enabled the Group to progress its multiple work programmes across its broadened asset portfolio, with approximately \$43.0 million invested during the year (2020: \$17.1 million).

During 2021, the fiscal and economic environment in Ukraine largely remained stable, despite the effects of the COVID-19 pandemic resulting in a contraction in GDP and an increase in the rate of inflation, and Ukrainian Hryvnia exchange rates also remained steady. However, the invasion of Ukraine has naturally had a huge impact on the fiscal and economic situation in Ukraine, and future fiscal and economic uncertainties will continue until an acceptable resolution of the conflict occurs.

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

The deregulation of the gas supply market, supported by electronic gas trading platforms and improved pricing transparency, has meant that Ukrainian market gas prices broadly correlated with imported gas prices. During 2021, gas prices recovered significantly, reflecting a similar trend in European gas prices. Similarly, condensate and LPG prices were also much higher by comparison with last year.

However, in Q1 2022, the Ukrainian Government imposed two material measures on oil and gas producers. Firstly, in January 2022 temporary partial gas price regulations were imposed until 30 April 2022, designed to support the production of certain designated food products, further details of which were set out in the Company's announcement dated 17 January 2022. Secondly, changes to the subsoil production tax rates applicable to gas production were introduced with effect from 1 March 2022, pursuant to which the tax rates were linked to gas prices, the incentive rates for new wells were extended for a further 10 years and improvements were made to the regulatory environment. In addition, an excise tax applicable to LPG sales was cancelled in February 2022, and the VAT rate applicable to condensate and LPG sales was reduced in March 2022. Further details were set out in the Company's announcement dated 13 April 2022.

Outlook

The invasion of Ukraine by Russia means that there is a catastrophic humanitarian situation in Ukraine, as well as extreme challenges to the fiscal, economic and business environment. These circumstances mean that it is extremely difficult to plan future investment and operational activities at the Group's fields, but subject to it being safe to do so, the Group is hoping to undertake further development activities during 2022 and beyond in order to continue the development of its fields. However, in doing so, the Group is taking, and will continue to take, all measures available to protect and safeguard its personnel and business, with the safety and wellbeing of its personnel and contractors being paramount. The Group retains the majority (77% as at 24 June 2022) of its cash outside Ukraine, which enhances the Group's ability to navigate the current risk environment for the foreseeable future, and provides a material buffer to any further disruptions to the Group's operations. This has enabled the Board to reach the opinion that the Group has sufficient resources to navigate the current risk environment for the foreseeable future.

In conclusion, on behalf of the Board, I would like to thank all of our staff for the continued dedication and support they showed during the 2021 year, especially in the midst of the COVID-19 pandemic, and even more so, for their remarkable fortitude since the invasion of Ukraine in February 2022.

Chris Hopkinson
Chairman

Chief Executive's Statement



Overall production continued its upward trend during the year, being approximately 4.2% higher than in 2020.



Sergii Glazunov
Chief Executive Officer

The Group continued to make good progress at its Ukrainian fields during 2021, with development activity at the MEX-GOL and SV fields including successes with the SV-25 appraisal well, which came on production in February 2021, and the SV-31 development well, which came on production in May 2022.

Drilling of the SV-29 development well was also completed, and, although the well produced gas flows on test, a stabilised flow rate was not established and so it is planned to test alternative horizons when possible. In addition, upgrades to the gas processing facilities, flow-line network and remedial activity on existing wells were undertaken.

At the VAS field, planning for a proposed new well to explore the VED prospect within the VAS licence area has continued, and upgrades to the flow-line network and other infrastructure were undertaken.

The Group also commenced work on the SC licence, with the spudding of the SC-4 appraisal well in August 2021, although the drilling operations were subsequently suspended due to the Russian invasion of Ukraine. However, the acquisition of 150 km² of 3D seismic over the 2021–2022 winter period was completed and the acquired seismic data is now being processed and interpreted.

Overall production continued its upward trend during the year, being approximately 4.2% higher than in 2020, although production rates declined in Q4 2021 following water ingress at the MEX-109 and SV-2 wells, causing these wells to be shut in pending workover operations designed to remedy the water ingress issues.



The Group continued to make good progress at its Ukrainian fields during 2021, with development activity at the MEX-GOL and SV fields including successes with the SV-25 appraisal well, which came on production in February 2021, and the SV-31 development well, which came on production in May 2022.



Quality, Health, Safety and Environment ("QHSE")

The Group is committed to maintaining the highest QHSE standards and the effective management of these areas is an intrinsic element of its overall business ethos. The Group's QHSE policies and performance are overseen by the Health, Safety and Environment Committee.

Through strict enforcement of the Group's QHSE policies, together with regular management meetings, training and the appointment of dedicated safety professionals, the Group strives to ensure that the impact of its business activities on its staff, contractors and the environment is as low as is reasonably practicable. The Group reports safety and environmental performance in accordance with industry practice and guidelines.

I am pleased to report that during 2021, a total of 840,807 man-hours of staff and contractor time were recorded without a Lost Time Incident occurring. The total number of safe man-hours now stands at over 4,292,623 man-hours without a Lost Time Incident. No environmental incidents were recorded during the year.

Production

The average daily production of gas, condensate and LPG from the MEX-GOL, SV and VAS fields for the year ended 31 December 2021 is shown below.

Production rates were higher in 2021 when compared with 2020, predominantly due to the contribution of the SV-25 well, which commenced production in February 2021.

The Russian invasion of Ukraine in February 2022 meant that the Group suspended all field operations for the period from 24 February to 15 March 2022, after which, production operations and some field activities resumed at the MEX-GOL and SV fields, while all operations remain suspended at the VAS field and SC licence. The VAS field is located near Kharkiv in north-eastern Ukraine, which has experienced significant military activity, and so resumption of production at this field is not anticipated in the immediate future. However, plans are being made to complete the drilling of the SC-4 well at the SC licence in the near future. As a result of the disruptions to operations caused by the invasion, the Group's average daily production for the 2022 year to date has been materially affected. However, production is currently continuing at the MEX-GOL and SV fields at a rate of approximately 2,500 boepd.

Operations

Notwithstanding the impact of the COVID-19 pandemic during 2020 and 2021, over those periods, there had been relatively stable fiscal and economic conditions in Ukraine, as well as reductions in the subsoil tax rates and improvements in the regulatory procedures in the oil and gas sector in Ukraine. However, the Russian invasion of Ukraine in February 2022 has caused huge disruption to the fiscal and economic conditions in Ukraine since then. During 2021, the strong recovery in gas prices in Europe fed through to the Group's realised prices in Ukraine, and provided a significant boost to the Group's revenues and profitability during the year.

During 2021, the Group continued to refine its geological subsurface models of the MEX-GOL, SV and VAS fields, in order to enhance its strategy for the further development of such 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-25 appraisal well was completed in February 2021, having been drilled to a final depth of 5,320 metres. One interval, at a drilled depth of 5,184- 5,190 metres, within the V-22 Visean formation was perforated, and after successful testing, the well was hooked-up to the gas processing facilities.

In August 2021, the drilling of the SV-29 development well was completed, having been drilled to a final depth of 5,450 metres. Two intervals, at drilled depths of 5,246 - 5,249 metres and 5,228- 5,232 metres respectively, within the V-22 Visean formation, were perforated, and, while intermittent gas flows were achieved, a stabilised flow from these intervals was not established. It is therefore planned to perforate and test two alternative intervals in the V-19 and V-20 Visean formations when possible.

| Field production | Gas (MMscf/d) | | Condensate (bbl/d) | | LPG (bbl/d) | | Aggregate boepd | |
|------------------|------------------|------|-----------------------|------|----------------|------|--------------------|-------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| MEX-GOL & SV | 18.9 | 17.6 | 681 | 641 | 308 | 295 | 4,237 | 3,960 |
| VAS | 2.6 | 2.9 | 26 | 32 | – | – | 493 | 581 |
| Total | 21.5 | 20.5 | 707 | 673 | 308 | 295 | 4,730 | 4,541 |

Chief Executive's Statement CONTINUED

In May 2022, the SV-31 development well was completed, with the well having reached a final depth of 5,240 metres. One interval, at a drilled depth of 5,210- 5,219 metres, within the V-22 Visean formation was perforated, and, after initial testing, the well was hooked up to the gas processing facilities. The well is currently producing at approximately 2.54 MMscf/d of gas and 117 bbl/d of condensate (563 boepd in aggregate).

The Group continued to operate each of the SV-2 and SV-12 wells under joint venture agreements with PJSC 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 PJSC Ukrnafta, with the Group accounting for the hydrocarbons produced and sold from the wells as revenue, and the net profit share due to PJSC Ukrnafta being treated as a lease expense in cost of sales. However, during Q4 2021, the SV-2 well experienced water ingress and consequently had to be taken off production. A workover of this well was commenced to remove and replace the production string, but this work was suspended as a result of the Russian invasion of Ukraine.

In addition, in Q4 2021, the MEX-109 well also experienced water ingress and as a result was taken off production. A workover of the well was commenced, and steps were taken to seal the source of the water ingress, but again the work was suspended as a result of the Russian invasion, and the well is currently under observation.

The shut-ins of the SV-2 and MEX-109 wells impacted overall production rates and, depending on the duration and outcome of the requisite remedial works, could potentially have a material impact on the Group's future overall production volumes.

Finally, at the MEX-GOL and SV fields, the upgrades to the gas processing facilities have been completed. These works involved an upgrade of the LPG extraction circuit, an increase to the flow capacity of the facilities, and a significant increase to the liquids tank storage capacity, which are designed to improve overall plant efficiencies, improve the quality of liquids produced and boost recoveries of LPG, while reducing environmental emissions.

At the VAS field, a successful workover of the VAS-10 well was undertaken to access an alternative production horizon, which improved production rates from the VAS field.

In March 2019 (as set out in the Company's 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.

Arkona Acquisition and SC Exploration Licence

As announced on 24 March 2020, the Group acquired the entire issued share capital of LLC Arkona Gas-Energy ("Arkona") for a total consideration of up to \$8.63 million, of which, \$4.32 million was subject to the satisfaction of certain conditions. Following satisfaction of the requisite conditions, and by agreement between the parties to the acquisition agreement, further payments totalling \$2.6 million (net of an indemnity liability) have been paid, and the balance of the consideration of \$1.6 million is subject to the remaining conditions and contractual provisions. 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 covers an area of 97 km², 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 five 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 area are Visean, at depths between 4,600–6,000 metres.

However, PJSC Ukrnafta, the majority State-owned oil and gas producer, issued legal proceedings against Arkona, in which PJSC Ukrnafta made claims of irregularities in the procedures involved in the grant of the SC licence to Arkona in May 2017. In early July 2020, the First Instance Court in Ukraine made a ruling in favour of PJSC Ukrnafta, which found that the grant of the SC licence was irregular, but this ruling was overturned by the Appellate Administrative Court in September 2020, and a final appeal to the Supreme Court of Ukraine was determined in favour of Arkona in February 2021. Further information is set out in the Company's announcements dated 3 July 2020, 31 July 2020, 30 September 2020, 23 November 2020 and 11 February 2021.

During early 2021, the Group engaged independent petroleum consultants, DeGolyer and MacNaughton, to prepare an assessment of the remaining reserves and contingent resources attributable to the SC licence as at 1 January 2021, in accordance with the March 2007 (as revised in June 2018) SPE/WPC/AAPG/SPEE Petroleum Resources Management System standard for classification and reporting. Their assessment estimated the proved and probable (2P) reserves attributable to the SC licence at 12.1 MMboe. The assessment is consistent with the Group's proposed field development plan for the SC licence, which includes the drilling of the SC-4 well and the acquisition of 150 km² of 3D seismic, and the construction of a gas processing plant. Development is then planned to continue with the drilling of a further six wells to recover the reserves and resources in the SC licence. Due to their targeted depths, the wells are each likely to take up to 12 months to complete, and are planned to be drilled consecutively over the next eight years. Further information on DeGolyer and MacNaughton's assessment can be found in the Company's announcement dated 2 June 2021.

At the SC licence, the SC-4 well had nearly reached its target depth of 5,565 metres, when drilling was suspended as a result of the Russian invasion of Ukraine. The well is primarily an appraisal well, targeting production from the V-22 horizon, as well as exploring the V-16 and V-21 horizons, in the Visean formation. In addition, the acquisition of 150 km² of 3D seismic has been completed, and processing and interpretation of the acquired seismic data is now being undertaken.

Outlook

The Russian invasion of Ukraine in February 2022 has caused significant disruption to Ukraine as a whole and to the Group's business activities, and until there is a satisfactory resolution to the conflict, the disruption and uncertainty are likely to continue. However, and subject to it being safe to do so, during 2022, the Group plans to continue to develop the MEX-GOL, SV and VAS fields, as well as moving forward with the appraisal and development of the SC licence area. At the MEX-GOL and SV fields, the development programme includes a workover of the SV-29 development well, to access alternative horizons in the Visean formation, drilling of two further wells in the MEX-GOL field, installation of further compression equipment, and remedial and upgrade work on existing wells, the flow-line network and pipelines and other infrastructure.

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

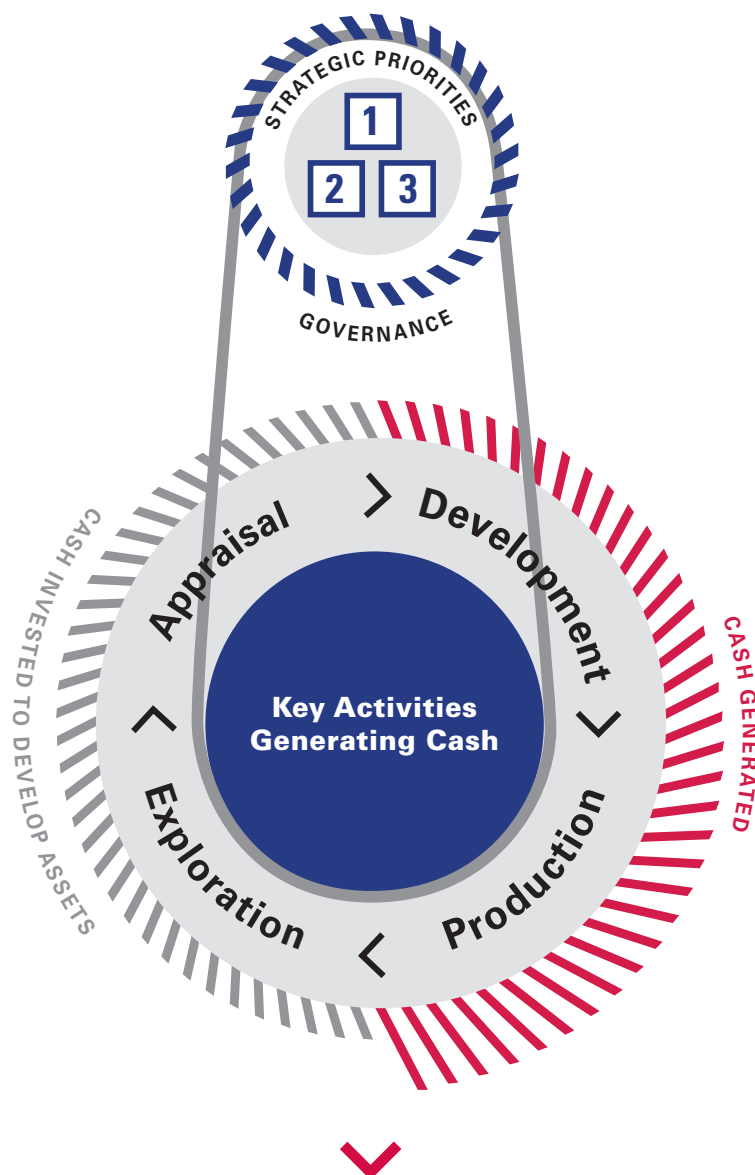
At the SC licence, drilling of the SC-4 well is planned to be completed, the recently acquired 3D seismic will be processed and interpreted and planning for the construction of gas processing facilities will continue.

Finally, I would like to add my thanks to all of our staff for the continued hard work and dedication they have shown over the course of 2021, and to especially recognise their continuing efforts and professionalism in the face of the extremely challenging current situation in Ukraine.

Sergii Glazunov

Chief Executive Officer

Business Model



Activities

Exploration

We aim to identify new opportunities within our fields by accurate geological and geophysical analysis and modelling to achieve a high probability of success

Appraisal

We pursue methodical analysis and review of drilling results to refine our subsurface models and ensure that discoveries are adequately appraised prior to development

Development

We carefully plan our development activities using tailored drilling techniques and extraction processes so as to fully exploit our reserve base, safely and economically

Production

We continually monitor production results to manage reservoir performance and maximise extraction rates, as well as reviewing processing facilities to optimise recoveries

Resources

Large and growing reserves

Our proved and probable (2P) reserves are approximately 59 MMboe through careful and incremental development

Cutting edge technology

We use modern, innovative technology and processes in our development activities, and encourage the investigation and adoption of new methods by our staff

Detailed budgeting process

A detailed budgeting process is essential to cost forecasting and performance discipline and to enable fiscal control of our business

Highly experienced team

We have well qualified and experienced technical management to plan and supervise operational activities. Additionally, we engage with suitably qualified local and international geological, geophysical and engineering experts and contractors to supplement and broaden the pool of expertise available to us

100% operatorship of assets

Through our 100% operatorship of our fields, we have the ability to maintain rigidly monitored planning and operational discipline, and can promptly modify plans and schedules should adverse economic, operational or other issues arise

Stakeholders

Employees

We aim to be a model employer, with high reputational and behavioural standards, safe operational working conditions and clearly structured career opportunities and progression for employees

Government

We adopt and maintain best industry standards to fully exploit hydrocarbons resources for consumption within Ukraine, and support the development of the oil and gas industry in Ukraine

Investors

We maintain disciplined operational and financial management to deliver strong growth, successful development of reserves and profitable results

Local community

We embed corporate and social responsibility throughout our business activities, and contribute to and participate in local community and countrywide social and welfare programmes, including material humanitarian aid to provide support during the ongoing conflict in Ukraine

Suppliers

We maintain a clear and consistent approach to dealing with suppliers, ensuring adherence to contractual obligations and maintaining safe working practices

Our Strategic Priorities

1

Deliver profitable production and reserves growth in Ukraine, with continued capital efficient operational excellence

2

Be a responsible steward of the resources we manage, produce and deliver to market

3

Recruit and retain a management team capable of delivering consistent top quartile performance across recognised industry and market metrics

Key targets:

Organic growth

- Expedite development of our assets, accelerate production growth, and exploit our resource base
- Careful field and reserves development planning
- Geological modelling to achieve high probability of success

Growth of reserves and resources

- Additional exploration, life cycle mix, new business opportunities and screening process

Improving performance

- Adopt oil and gas industry best practice
- Reduce costs of operations
- Application of drilling model

Key risks:

- Reservoir and operational performance
- Regional stability and conflict
- Commodity price shifts

Key targets:

Operating safely and responsibly

- Continual assessment and monitoring of a safe operating environment during the ongoing conflict in Ukraine
- Adopt and exceed industry standards
- Embed corporate and social responsibility process throughout business organisation
- Implement Near Miss system of reporting

Strong and stable governance

- Adhere to the QCA Code and institutional shareholder body guidance

Rigid operational financial and risk planning

- Ensure that future operations and sales reflect the market and forecasts
- Be cognisant of the necessity for good reservoir and corporate resource management

Key risks:

- Implementation and adherence to QHSE policies
- Maintenance of independence of Board of Directors
- Maintenance of controls and processes for financial and risk management

Key targets:

Stakeholder buy-in

- Team clear on behaviours, roles and responsibilities

Retention

- Keeping great people on the team

Correct skills for the objective/role

- Clarity of skills required for each position

Attracting new talent

- Strong reputation as a model employer
- Transparent and clearly structured career opportunities, progression and talent nurturing

Key risks:

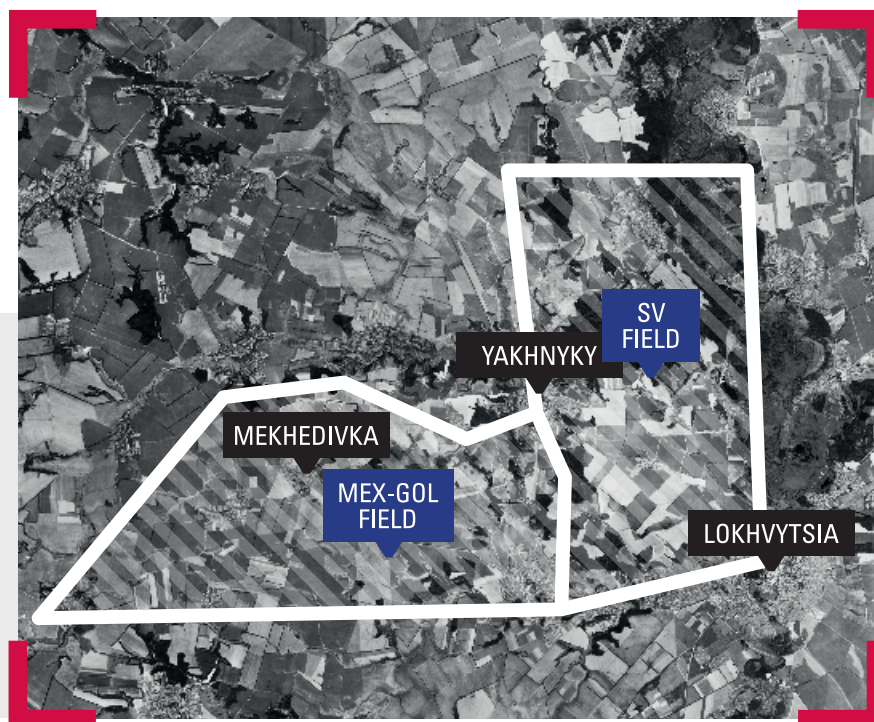
- Failure to challenge and motivate existing employees
- Compensation
- Competitiveness

Overview of Assets

We operate four fields in the Dnieper-Donets basin in north-eastern Ukraine. Our fields have high potential for growth and longevity for future production – a strong foundation for success.

MEX-GOL and SV Fields

The MEX-GOL and SV fields are held under two adjacent production licences, but are operated as one integrated asset, and have significant gas and condensate reserves and potential resources of unconventional gas.



Production Licences

We hold a 100% working interest in, and are the operator of, the MEX-GOL and SV fields. The production licences for the fields were granted to the Group in July 2004 with an initial duration of 20 years, and the duration of these licences have recently been extended to 2044 in order to fully develop the remaining reserves. The economic life of these fields extend to 2038 and 2042 respectively pursuant to the most recent reserves and resources assessment by DeGolyer and MacNaughton ("D&M") as at 31 December 2017.

The two licences, located in Ukraine's Poltava region, are adjacent and extend over a combined area of 253 km², approximately 200 km east of Kyiv.

Geology

Geologically, the fields are located towards the middle of the Dnieper-Donets sedimentary basin, which extends across the major part of north-eastern Ukraine. The vast majority of Ukrainian gas and condensate production comes from this basin. The reservoirs comprise a series of gently dipping Carboniferous sandstones of Viséan age interbedded with shales at around 4,700 metres below the surface, with a gross thickness of between 800 and 1,000 metres.

Analysis suggests that the origin of these deposits ranges from fluvial to deltaic, and much of the trapping at these fields is stratigraphic. Below these reservoirs is a thick sequence of shale above deeper, similar, sandstones at a depth of around 5,800 metres. These sands are of Tournasian age and offer additional gas potential. Deeper sandstones of Devonian age have also been penetrated in the fields.

Reserves

The development of the fields began in 1995 by the Ukrainian State company Chernihivnaftogasgeologiya ("CNGG"), and shortly after this time, the Group entered a joint venture with CNGG in respect of the exploration and development of these fields.

The fields have been mapped with 3D seismic, and a geological subsurface model has been developed and refined using data derived from high-level reprocessing of such 3D seismic and new wells drilled on the fields.

The assessment undertaken by D&M as at 31 December 2017 estimated proved plus probable (2P) reserves attributable to the fields of 50.0 MMboe, with 3C contingent resources of 25.3 MMboe.

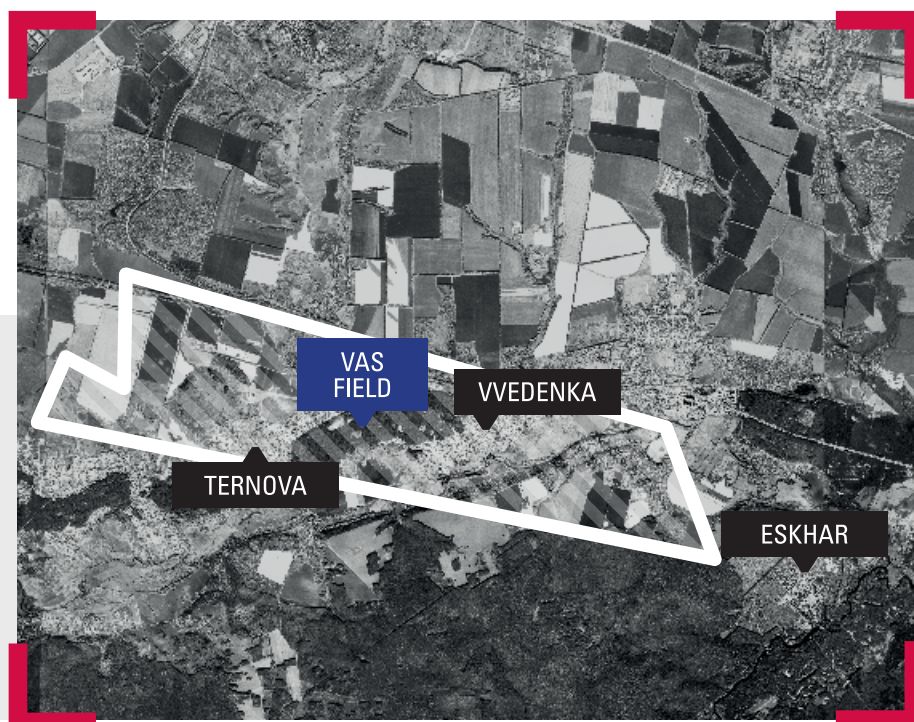
100%
WORKING INTEREST

253 km²
COMBINED LICENCES AREA

50 MMboe
2P RESERVES

VAS Field

The VAS field is a smaller field with interesting potential. The field has assessed proved plus probable reserves in excess of 3 MMboe and substantial contingent and prospective resources, as well as potential resources of unconventional gas.



Production Licence

We hold a 100% working interest in, and are the operator of, the VAS field. The production licence for the field was granted in August 2012 with a duration of 20 years. The economic life of the field extends to 2032 pursuant to the most recent reserves and resources assessment by D&M as at 31 December 2018.

The licence extends over an area of 33.2 km² and is located 17 km south-east of Kharkiv, in the Kharkiv region of Ukraine. The field was discovered in 1981, and the first well on the licence area was drilled in 2004.

Geology

Geologically, the field is located towards the middle of the Dnieper-Donets sedimentary basin in north-east Ukraine. The field is trapped in an anticlinal structure broken into several faulted blocks, which are gently dipping to the north, stretching from the north-east to south-west along a main bounding fault. The gas is located in Carboniferous sandstones of Bashkirian, Serpukhovian and Visean age.

The productive reservoirs are at depths between 3,370 and 3,700 metres.

Reserves

The field has been mapped with 3D seismic, and a geological subsurface model has been developed and refined using data derived from such 3D seismic and new wells drilled on the field.

The assessment undertaken by D&M as at 31 December 2018 estimated proved plus probable (2P) reserves of 3.1 MMboe, with 3C contingent resources of 0.6 MMboe, and prospective resources of 7.7 MMboe in the VED area of the field. The next well planned on the field is designed to explore the VED area of the field.

100%
WORKING INTEREST

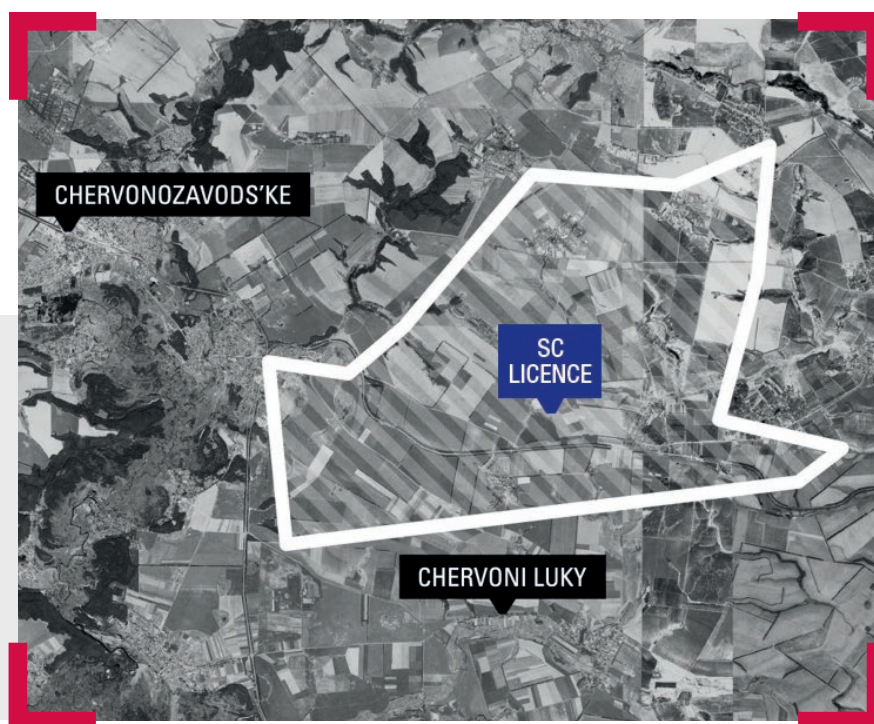
33.2 km²
LICENCE AREA

3.1 MMboe
2P RESERVES

Overview of Assets CONTINUED

SC Licence

The SC licence area is located near to, and has similar characteristics to, the SV field, and is prospective for gas and condensate.



Exploration Licence

We hold a 100% working interest in, and are the operator of, the SC licence. The licence was granted in May 2017 with a duration of 20 years.

The licence extends over an area of 97 km², and is located in the Poltava region in north-eastern Ukraine, approximately 15 km east of the SV field.

Geology

Geologically, the field is located towards the middle of the Dnieper-Donets sedimentary basin, which extends across the major part of north-eastern Ukraine. The vast majority of Ukrainian gas and condensate production comes from this basin. The reservoirs comprise a series of gently dipping Carboniferous sandstones of Visean age interbedded with shales at depths between 4,600 and 6,000 metres.

Resources

The licence is prospective for gas and condensate, and has been the subject of exploration since the 1980s, with five wells having been drilled on the licence since then, although none of these wells are currently on production.

The assessment undertaken by D&M as at 1 January 2021 estimated proved plus probable (2P) reserves of 12.1 MMboe, with 3C contingent resources of 15.0 MMboe.

100%
WORKING INTEREST

97 km²
LICENCE AREA

12.1 MMboe
2P RESERVES

Overview of Reserves

1. MEX-GOL and SV Fields

The Group's estimates of the remaining Reserves and Resources at the MEX-GOL and SV fields are derived from an assessment undertaken by D&M, as at 31 December 2017 (the "MEX-GOL-SV Report"), which was announced on 31 July 2018. During the period from 1 January 2018 to 31 December 2021, the Group has produced 5.2 MMboe from these fields.

The MEX-GOL-SV Report estimated the remaining Reserves as at 31 December 2017 in the MEX-GOL and SV fields as follows:

| | Proved (1P) | Proved + Probable (2P) | Proved + Probable + Possible (3P) |
|--------------|----------------------------------|----------------------------------|--------------------------------------|
| Gas | 121.9 Bscf / 3.5 Bm ³ | 218.3 Bscf / 6.2 Bm ³ | 256.5 Bscf / 7.3 Bm ³ |
| Condensate | 4.3 MMbbl / 514 Mtonne | 7.9 MMbbl / 943 Mtonne | 9.2 MMbbl / 1,098 Mtonne |
| LPG | 2.8 MMbbl / 233 Mtonne | 5.0 MMbbl / 418 Mtonne | 5.8 MMbbl / 491 Mtonne |
| Total | 27.8 MMboe | 50.0 MMboe | 58.6 MMboe |

The MEX-GOL-SV Report estimated the Contingent Resources as at 31 December 2017 in the MEX-GOL and SV fields as follows:

| | Contingent Resources (1C) | Contingent Resources (2C) | Contingent Resources (3C) |
|--------------|----------------------------------|----------------------------------|-----------------------------------|
| Gas | 14.7 Bscf / 0.42 Bm ³ | 38.3 Bscf / 1.08 Bm ³ | 105.9 Bscf / 3.00 Bm ³ |
| Condensate | 1.17 MMbbl / 144 Mtonne | 2.8 MMbbl / 343 Mtonne | 6.6 MMbbl / 812 Mtonne |
| Total | 3.8 MMboe | 9.6 MMboe | 25.3 MMboe |

2. VAS Field

The Group's estimates of the remaining Reserves and Resources at the VAS field and the Prospective Resources at the VED prospect are derived from an assessment undertaken by D&M as at 31 December 2018 (the "VAS Report"), which was announced on 21 August 2019. During the period from 1 January 2019 to 31 December 2021, 0.7 MMboe were produced from the field.

The VAS Report estimated the remaining Reserves as at 31 December 2018 in the VAS field as follows:

| | Proved (1P) | Proved + Probable (2P) | Proved + Probable + Possible (3P) |
|--------------|------------------------------------|-------------------------------------|--------------------------------------|
| Gas | 9,114 MMscf / 258 MMm ³ | 15,098 MMscf / 427 MMm ³ | 18,816 MMscf / 533 MMm ³ |
| Condensate | 205 Mbbl / 25 Mtonne | 346 Mbbl / 42 Mtonne | 401 Mbbl / 48 Mtonne |
| Total | 1.895 MMboe | 3.145 MMboe | 3.890 MMboe |

The VAS Report estimated the Contingent Resources as at 31 December 2018 in the VAS field as follows:

| | Contingent Resources (1C) | Contingent Resources (2C) | Contingent Resources (3C) |
|------------|---------------------------|---------------------------|-----------------------------------|
| Gas | – | – | 2,912 MMscf / 83 MMm ³ |
| Condensate | – | – | 74 Mbbl / 9 Mtonne |

The VAS Report estimated the Prospective Resources as at 31 December 2018 in the VED prospect as follows:

| | Low (1U) | Best (2U) | High (3U) | Mean |
|-----|--|--|--|--|
| Gas | 23,721 MMscf / 672 MMm ³ | 38,079 MMscf / 1,078 MMm ³ | 62,293 MMscf / 1,764 MMm ³ | 41,291 MMscf / 1,169 MMm ³ |

Overview of Reserves CONTINUED

3. SC Licence

The Group's estimates of the remaining Reserves and Contingent Resources at the SC licence are derived from an assessment undertaken by D&M as at 1 January 2021 (the "SC Report"), which was announced on 2 June 2021.

The SC Report estimated the remaining Reserves as at 1 January 2021 in the SC licence area as follows:

| | Proved (1P) | Proved + Probable (2P) | Proved + Probable + Possible (3P) |
|--------------|-----------------------------------|-----------------------------------|--------------------------------------|
| Gas | 17.20 Bscf / 0.49 Bm ³ | 65.16 Bscf / 1.85 Bm ³ | 85.03 Bscf / 2.41 Bm ³ |
| Condensate | 145 Mbbl / 16 Mtonne | 548 Mbbl / 61 Mtonne | 716 Mbbl / 80 Mtonne |
| Total | 3.2 MMboe | 12.1 MMboe | 15.7 MMboe |

The SC Report estimated the Contingent Resources as at 1 January 2021 in the SC licence area as follows:

| | Contingent Resources (1C) | Contingent Resources (2C) | Contingent Resources (3C) |
|--------------|----------------------------------|-----------------------------------|-----------------------------------|
| Gas | 8.56 Bscf / 0.24 Bm ³ | 14.18 Bscf / 0.40 Bm ³ | 81.16 Bscf / 2.30 Bm ³ |
| Condensate | 72 Mbbl / 8 Mtonne | 119 Mbbl / 13 Mtonne | 682 Mbbl / 75 Mtonne |
| Total | 1.6 MMboe | 2.6 MMboe | 15.0 MMboe |

Finance Review



Gross profit for the year was dramatically higher at \$73.9 million (2020: \$15.7 million).



Bruce Burrows
Finance Director

The Group's financial performance in 2021 was exceptional when compared to previous periods, with the net profit for the year of \$51.1 million being an approximate 15-fold increase on 2020 (2020: \$3.2 million). The dramatic improvement is primarily a result of the Group's achievement of record levels of production coinciding with the very significant increase during the period in pricing of the Group's primary product, natural gas.

Aggregate production for the year was up approximately 4% at 4,730 boepd (2020: 4,541 boepd).

Rarely has natural gas, and its pricing, been more of a focus of public attention, with the sizeable global rise in the commodity's pricing being well documented throughout the latter part of 2021. These global and European price increases were also experienced in Ukraine, and underpinned the 218% rise in average gas price realisations in the period at \$432/Mm³ (UAH11,677/Mm³), with condensate and LPG average sales prices also up by 50% and 74% at \$69/bbl and \$80/bbl respectively (2020: \$136/Mm³ (UAH3,618/Mm³), \$46/bbl and \$46/bbl respectively).

Revenue for the year, derived from the sale of the Group's Ukrainian gas, condensate and LPG production, was up at \$121.4 million (2020: \$47.3 million). Most notably, within this total, the revenue from gas sales alone was up approximately 197% at \$95.8 million (2020: \$32.3 million).



Rarely has natural gas, and its pricing, been more of a focus of public attention, with the sizeable global rise in the commodity's pricing being well documented throughout the latter part of 2021. These global and European price increases were also experienced in Ukraine, and underpinned the 218% rise in average gas price realisations in the period.



During the period from 1 January 2022 to 31 May 2022, the average realised gas, condensate and LPG prices were \$1,201/Mm³ (UAH34,613/Mm³), \$105/bbl and \$151/bbl respectively.

Cost of sales for the year was up approximately 50% at \$47.4 million (2020: \$31.5 million). The major contributor to this increase is the material rise in the revenue-related costs of taxes and well rental (with their direct link to commodity prices), up approximately 130% at a combined \$28.7 million (2020: \$12.5 million). Excluding these tax expenses directly related to commodity prices, the residual cost of sales is consistent at \$18.7 million (2020: \$19.0 million). The impact of the above noted increase in well rental costs is also evidenced in the increase in operating expenditure per boe, which also increased as a direct result of such well rental costs increase, from \$9.50/boe in 2020 to \$13.60/boe in 2021.

Gross profit for the year was dramatically higher at \$73.9 million (2020: \$15.7 million).

The subsoil tax rates applicable to gas production were stable during the 2021 year 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.

However, with effect from 1 March 2022, changes to the subsoil production tax rates applicable to gas production were introduced. These changes modified the applicable tax

rates based on gas prices, extended the incentive rates for new wells for a further 10 years and made improvements to the regulatory environment. The legislation which introduced these changes also included provisions that these rates will not be increased for 10 years.

The new subsoil production tax rates applicable to gas production are as follows:

- i. when gas prices are up to \$150/Mm³, the rate for wells drilled prior to 1 January 2018 ("old wells") is 14.5% for gas produced from deposits at depths shallower than 5,000 metres and 7% for gas produced from deposits deeper than 5,000 metres, and for wells drilled after 1 January 2018 ("new wells") is 6% for gas produced from deposits at depths shallower than 5,000 metres and 3% for gas produced from deposits deeper than 5,000 metres;
- ii. when gas prices are between \$150/Mm³ and \$400/Mm³, the rate for old wells is 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, and for new wells is 12% for gas produced from deposits at depths shallower than 5,000 metres and 6% for gas produced from deposits deeper than 5,000 metres;
- iii. when gas prices are more than \$400/Mm³, for the first \$400/Mm³, the rate for old wells is 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, and for new wells is 12% for gas produced from deposits at depths shallower than 5,000 metres and 6% for gas produced from deposits deeper than 5,000 metres, and for the difference between \$400/Mm³ and the actual price, the rate for old wells is 65% for gas produced from deposits at depths shallower than 5,000 metres and 31% for gas produced from deposits deeper than 5,000 metres, and for new wells is 36% for gas produced from deposits at depths shallower than 5,000 metres and 18% for gas produced from deposits deeper than 5,000 metres.

The tax rates applicable to condensate production were unchanged and so remain at 31% for condensate produced from deposits shallower than 5,000 metres and 16% for condensate produced from deposits deeper than 5,000 metres, for both old and new wells.

In addition, the excise tax of €52 (\$59) per thousand litres applicable to LPG sales was cancelled entirely with effect from 24 February 2022, and the VAT rate applicable to condensate and LPG sales was reduced to 7% (from 20%) with effect from 18 March 2022.

Finally, in early 2022, the Ukrainian Government imposed temporary and partial gas price regulation to support the production of certain food products through the supply of gas at regulated prices to the producers of such products. Under this scheme, all independent gas producers in Ukraine were required to sell up to 20% of their natural gas production for the period until 30 April 2022 at a price set as the cost of sales of the relevant gas producer (based on established accounting rules) for such gas, plus a margin of 24%, plus existing subsoil production taxes (the "Regulated Price"). This gas was then sold to specified producers of designated socially important food products at the Regulated Price, so as to reduce the energy costs of such producers during the period through to 30 April 2022. The designated products were certain types of flour, milk (with up to 2.5% fat), bread, eggs, chicken and sunflower oil, for sale in the Ukrainian domestic market. This temporary scheme has now concluded. Further details are set out in the Company's announcement dated 17 January 2022.

Administrative expenses for the year were 7.7% higher at \$8.4 million (2020: \$7.8 million), primarily as a net result of: a 27% decrease in consultancy fees mainly due to the level of legal and advisory costs associated with the acquisition activity in 2020 not having been repeated; and an 11% increase in payroll and related taxes, consistent with further increases in staff levels and salary inflation.

Finance costs for the year were approximately 43% lower at \$0.8 million (2020: \$1.4 million), mainly due to realised net foreign exchange gains during 2021, as opposed to the net losses incurred in 2020.

Other losses in the year reduced by 95% in the period, a result of the non-recurring nature of the charitable donation in 2020 of \$2.0 million for the supply of COVID-19-related medical equipment for Ukrainian authorities.

The tax charge for the year increased by a significant 370% to \$15.5 million (2020: \$3.3 million charge) mainly due to the material increase in profit before tax, and comprised a current tax charge of \$13.3 million (2020: \$3.0 million charge) and a deferred tax charge of \$1 million (2020: \$0.3 million charge).

A deferred tax asset relating to the Group's provision for decommissioning as at 31 December 2021 of \$0.5 million (2020: \$0.2 million) 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. A deferred tax liability relating to the Group's development and production assets at the MEX-GOL and SV fields as at 31 December 2021 of \$5.7 million (2020: \$2.9 million) 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.

A deferred tax asset relating to the Group's provision for decommissioning as at 31 December 2021 of \$0.3 million (2020: \$0.3 million) 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. A deferred tax liability relating to the Group's development and production assets at the VAS field as at

31 December 2021 of \$0.5 million (2020: \$0.2 million) 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.

Capital investment of \$32.2 million reflects the investment in the Group's oil and gas development and production assets during the year (2020: \$18.2 million), primarily relating to the drilling of the SV-25, SV-29, SV-31 and SC-4 wells. A review of any indicators of impairment of the carrying value of the Group's assets was undertaken at the year end but this review did not reveal any such indicators.

With the material increase in commodity prices during the period, and Q4 2021 in particular, trade and other receivables were up 173% to \$13.1 million (2020: \$4.8 million). The \$5.2 million of trade receivables included in the year-end balance have been paid in full in 2022.

Cash, cash equivalents and short-term investments held as at 31 December 2021 were 52% higher at \$92.5 million (2020: \$61.0 million), the increase being a result of the significant increase in sales receipts in the period for the reasons noted above. The Group's cash and cash equivalents balance as at 24 June 2022 was \$76.5 million, held as to \$17.4 million equivalent in Ukrainian Hryvnia and the balance of \$59.1 million equivalent predominantly in US Dollars, Euros and Pounds Sterling.

During 2021, the Ukrainian Hryvnia was stable against the US Dollar, strengthening modestly from UAH28.3/\$1.00 on 31 December 2020 to UAH27.3/\$1.00 on 31 December 2021. The impact of this was \$1.6 million of foreign exchange gain (2020: \$15 million of foreign exchange loss). Increases and decreases in the value of the Ukrainian Hryvnia against

the US Dollar affect the carrying value of the Group's assets.

Cash from operations has funded the capital investment during the year, and the Group's current cash position and positive operating cash flow are the sources from which the Group plans to fund the development programmes for its assets in 2022 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 its 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 monetary resources at the end of the year of \$92.5 million (\$63.5 million of which was held outside Ukraine), and annual running costs of less than \$8 million, the Group remains in a very strong position, notwithstanding the impact of the current conflict in Ukraine, as well as any local or global shocks that may occur to the industry and/or the Group.

On 25 February 2021, the Company completed a reduction of its share capital through the cancellation of its entire share premium account. This reduction of capital creates distributable reserves of the Company, which potentially enables the Company to make distributions to its shareholders in the future, subject to the Company's financial performance. However, the Company is not indicating any commitment, and does not have any current intention, to make any distributions to shareholders.

Bruce Burrows
Finance Director

Key Performance Indicators

The Group uses key performance indicators ("KPIs") to measure its performance and achievements in its business activities. The KPIs are reviewed annually to ensure that the KPIs are relevant. The Group's targeted and achieved results of its KPIs for 2021 are set out below. The Level One KPI is an overriding KPI for performance-related remuneration, and must be achieved to invoke the Level Two KPIs.

Level One KPI

Level Two KPIs

| 1. Fatalities of zero | 1. Total volumes of gas and condensate produced | 2. Lost Time Incidents | 3. Operating expenditure per barrel of oil equivalent | 4. Cashflow from operating activities |
|-----------------------|---|------------------------|---|---------------------------------------|
| TARGET | TARGET | TARGET | TARGET | TARGET |
| 0 | 1,535,000 boe | 0 | UAH 300 (\$11.00) | UAH 612 million (\$22.4 million) |
| ACTUAL | ACTUAL | ACTUAL | ACTUAL | ACTUAL |
| 0 | 1,647,942 boe | 0 | UAH 371 (\$13.60) | UAH 1,893 million (\$69.4 million) |

Sustainability

We strive to operate and develop our business in a sustainable way and believe in operating to top quartile ethical, safety and environmental standards. We intend to make a positive impact wherever we work.

Transparency and fairness

We succeed in business by working in an honest and ethical way, and we will not countenance bribery and corruption. Our Anti-Bribery and Corruption Policy explains our approach to these issues. It is also important that all our stakeholders are well informed about our work, and that we carry out tenders for operational services and equipment in a fair and transparent way.

Our people

Our people are our most valuable asset. We work hard to develop the talents and skills of our team, and we endeavour to recruit outstanding new employees to enrich our capabilities. At the same time, we place paramount emphasis on safety at work, as well as the broader health and safety of our employees, and have and continue to implement rigorous new processes and training across the business.

Environmental protection

We regularly update and modernise our infrastructure and ways of working to improve efficiency and reduce our impact on the natural world. Independent environmental research companies monitor the environment in the areas in which we operate to ensure that we meet the relevant standards and regulations.

Local communities

We work hard to give back to the communities where we work, not just by creating jobs and paying taxes, but by maintaining and contributing to local organisations and infrastructure. Among other things, we support local schools (e.g. materials for repair works and funding of school meals) and youth sports, as well as the repair of roads and local infrastructure.

Environmental Management

Protecting the natural environment has always been a key focus for us but arguably has never been more important than now. We carefully monitor the effects of our operations, regularly upgrade equipment to minimise our impact, and have implemented strict quality, health, safety and environmental policies. Our QHSE policies and performance are overseen by our Health, Safety and Environment Committee.

We work to mitigate our environmental impact in many ways, including taking a responsible attitude to methods of production, carefully coordinating our activities, using only high-quality materials certified to international standards, and

frequently updating our technology and processes.

We have been accredited to environmental standard ISO 14001:2015 Environmental Management Systems, and our QHSE policies are designed to raise standards in these areas.

Regular monitoring of environmental indicators for ongoing projects ensures we can continually assess our impact on the environment.

Modernised infrastructure

We continue to modernise our production infrastructure in order to improve both operational and environmental performance.

Over recent years, we have progressively upgraded infrastructure, including the metering and separation station ("MSS") at the gas processing facility at the MEX-GOL and SV fields. This involved the replacement of equipment and automation of various processes, allowing us to solve a number of issues and reduce our environmental impact through, in particular:

- significant reduction of gas flaring, gas losses and air emissions
- expansion of pollution controls in and around the area
- development of an enclosed gas measuring system on a well
- stricter observance of environmental laws and safety regulations

We also installed a new condensate stabilisation unit ("CSU") at the MSS, enabling us to use raw materials more efficiently and greatly improve the MSS's environmental performance. We also installed facilities to produce LPG at the MEX-GOL and SV fields. The LPG produced is not only a very marketable product (liquefied propane-butane) but is also a relatively environmentally friendly hydrocarbon fuel.

Recently, we have completed further work on the gas processing facilities at the MEX-GOL and SV fields to upgrade the LPG extraction circuit, increase the flow capacity of the facilities, and significantly increase the liquids tank storage capacity, all of which are designed to improve overall plant efficiencies, improve the quality of liquids produced and boost recoveries of LPG, while reducing environmental emissions.

Our QHSE policies

Our policies for quality, health, safety and environment protection focus on the following:

- using our capabilities in the most efficient ways possible
- protecting and improving environmental conditions where we work

- improving occupational health and safety
- developing and expanding employees' skills

Environmental monitoring

From time to time, we commission independent environmental research companies to monitor the state of soil, underground and open water, and plant and animal life throughout the entire area of our activities. These studies have never detected any violation of relevant environmental standards.

SECR Streamlined Energy and Carbon Reporting ("SECR")

We remain very aware of the current drive globally to monitor, reduce and report levels of energy use in delivering Group performance, and note that SECR reporting requirements apply to the Group. However, as our United Kingdom emissions are de-minimis, with only two full-time employees in the United Kingdom and no operational presence, we fall below the minimum threshold and are currently exempt from reporting such information. Notwithstanding that exemption, we are actively reviewing our Ukrainian operations to determine the processes of self-reporting for our global operations, and formulating the content of our intended self-reporting.

This initiative is intended to:

- disclose the environmental-related data currently collected, including: energy consumed, water consumed, greenhouse gas emissions and waste generated (in natural units and relative to volumes of extracted gas);
- determine any additional applicable indicators to be added, for example: natural gas and solid fuel consumed for heating, compressors and other equipment; diesel fuel used in diesel generators; consumption of petrol and diesel in vehicles, etc.;
- determine potential benchmarks; and
- determine the reporting frequency.

Health and Safety

Safety at work is fundamental and underpins all our success. We continue to improve our safety standards by introducing new processes and systems, including our Near Miss reporting system. We have introduced new production processes, which are intended to meet or exceed all applicable health and safety standards in Ukraine, as well as aiming to be more efficient than previously. In 2021, our operations were re-certified as complying with international standards of quality, occupational safety and health management systems, according to ISO 14001:2015 and ISO 45001:2018.

In 2019, we launched our Near Miss reporting system, designed to increase occupational health and safety by detecting and eliminating dangerous incidents, situations, and practices ("Near Misses"). We now centrally record all Near Misses in our workplaces and seek to establish ways to reduce or eliminate the chances of dangerous incidents occurring in the future. We undertake practical training sessions and generate a register of reported Near Misses, ranked by risk level (identification, recognition and mitigation as a key to safe working). Since then, we have advanced our Near Miss reporting system by introducing a fully electronic process, carrying out Near Miss training for internal auditors and coaches, rolling out new ways to detect and eliminate Near Misses, and introducing Near Miss KPIs for our team.

In 2020, we launched our TOP 10 safety standards for high risk operations, with leadership and training programmes for each of these standards.

In 2021, we continued to develop our health and safety regime, with the implementation of a number of improvement measures, digitisation of health and safety procedures, the adoption of specific measures for the protection of employees against COVID-19, and an extensive occupational health and safety training programme for all employees.

The preservation of human life and health is our highest value, and we will continue to work hard to further raise occupational health and safety standards.

Military Conflict in Ukraine

The invasion of Ukraine by Russia, which commenced on 24 February 2022, has caused a catastrophic humanitarian situation in Ukraine, as well as extreme challenges to the fiscal, economic and business environment. At the present time, the scope and duration of the military conflict is unknown and there is a great deal of uncertainty about the ultimate impact that such conflict will have on Ukraine and its population.

These circumstances mean that it is extremely difficult to plan future investment and operational activities at the Group's fields. The Group is taking all possible measures to safeguard its staff, especially those who are located at the Group's fields. Where possible, staff work remotely and have been supplied with all necessary devices and software to facilitate remote working, and only necessary field staff attend field operational facilities and locations, where all possible measures are maintained to minimise risk, such as ensuring that hydrocarbon inventories are kept at minimum levels. Currently, production operations at

the VAS field remain suspended, given its proximity to Kharkiv in north-eastern Ukraine and the active and ongoing conflict in that area, and drilling operations at the SC licence area have also remained suspended, while production and limited field operations are being undertaken at the MEX-GOL and SV fields. However, in undertaking such operations, the Group is taking, and will take, all measures available to protect and safeguard its personnel and business, with the safety and wellbeing of its staff and contractors being paramount.

COVID-19 Pandemic

The COVID-19 pandemic has had an enormous detrimental effect on the lives of the world's population, disrupting every aspect of people's lives and livelihoods. The Group and its staff have, of course, been affected like much of the population, but to date, the Group has not suffered any significant operational disruption as a result of the COVID-19 pandemic. However, the risks associated with the pandemic remain high, and, to the extent possible, the Group has taken action to mitigate those risks, not only to protect staff and stakeholders, but also to minimise potential disruption to its business.

The Group is continually monitoring the health and wellbeing of its staff, and is committed to maintaining as safe a working environment as is possible during the pandemic. Since the commencement of the pandemic, the Group has implemented a number of significant measures to safeguard its staff, and will continue to monitor and maintain such measures as are appropriate to safeguard its staff and contractors.

Principal Risks and Uncertainties



Risks Overview

Managing risks effectively is fundamental to the success of our business and we apply rigorous criteria across our operations and functions. We also operate to top quartile quality, health, safety and environmental (“QHSE”) standards, and we monitor and manage each of these areas.

We evaluate the risks according to the common set of assessment criteria deployed across business units, corporate functions and capital investment projects, and then rank and prioritise risks by importance and by comparing their level against predetermined target risk levels and tolerance thresholds.

For all major risks we have developed a strategy for how we respond and mitigation plans, with deadlines and responsibilities, so if a serious risk ever materialises, we know how we will react and will react quickly.

The key team responsible for managing risks is our Management Risk Committee. This Committee monitors our business operations, identifies and records important risks, and formally reviews and updates our Risk Register and Mitigation Plan each quarter.

In addition, oversight and responsibility of all QHSE matters falls to the HSE Committee composed of Board members and senior management.

The Group’s QHSE policies are robustly enforced via management meetings, training and the work of our safety experts. The overall aim is always to ensure that the impact of our work on our staff, contractors and the environment is as low as is practically possible.

We also operate a Near Miss reporting system, collecting and addressing reports on near miss incidents to monitor and improve occupational health and safety.

Principal Risks and How We Manage Them

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 mitigating factors are detailed in the following pages.

| Risk | Mitigation |
|--|---|
| External risks | |
| Military conflict in Ukraine | |
| <p>On 24 February 2022, Russia invaded Ukraine and there is currently a serious and ongoing military conflict within Ukraine. This conflict is having a huge impact on Ukraine and its population, with significant destruction of infrastructure and buildings in the areas of conflict, as well as damage in other areas of Ukraine. The conflict is resulting in significant casualties and has caused a huge humanitarian catastrophe and refugee influx into neighbouring countries. The conflict is also impacting the fiscal and economic environment in Ukraine, as well as the financial stability and banking system in Ukraine, including restrictions on the transfer of funds outside Ukraine. The conflict is an escalation of the previous Regional Conflict risk faced by the business, a dispute that has been going on since 2014 in parts of eastern Ukraine, and since that time, Russia has continued to occupy Crimea. The current conflict is also having a significant 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. The conflict has disrupted the Group's business and operations, causing the suspension of field operations, albeit recommenced in March 2022 at the MEX-GOL and SV fields, and has also impacted the supply of materials and equipment and the availability of contractors to undertake field operations. At present, the conflict is ongoing and the scope and duration of the conflict is uncertain.</p> | <p>Although the Group has no assets in Crimea, it does have assets in the areas of conflict in the east of Ukraine, and the conflict has disrupted its operations in those areas. The Group has suspended all field operations at the VAS field and SC licence area, and is only undertaking limited field and production operations at the MEX-GOL and SV fields. At the MEX-GOL and SV fields, inventories of hydrocarbons are being maintained at minimum levels. At the sites where operations are suspended, there are no staff on site, except for necessary security staff. Where possible, all other staff work remotely and have been supplied with all necessary devices and software to facilitate remote working. Additionally, the Group aims to maintain the significant majority of its cash resources outside Ukraine (being 77% as at 24 June 2022). The Group continues to monitor the situation and endeavours to protect its assets and safeguard its staff and contractors.</p> |
| Risk relating to Ukraine | |
| <p>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. Furthermore, the military conflict in Ukraine is impacting the fiscal and economic environment, the financial and banking system, and the economic stability of Ukraine. As a result, Ukraine will require financial assistance and/or aid from international financial agencies to provide economic support and assist with the reconstruction of infrastructure and buildings damaged in the conflict.</p> | <p>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.</p> |
| Banking system in Ukraine | |
| <p>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. This situation was improving moderately following remedial action by the National Bank of Ukraine, but the current military conflict has significantly affected such improvements, and the National Bank of Ukraine has imposed a number of restrictive measures designed to protect the banking system, including restrictions of the transfer of funds outside Ukraine (albeit that the Group aims to maintain the significant majority of its cash resources outside Ukraine (being 77% as at 24 June 2022)). In addition, Ukraine continues to be supported by funding from the International Monetary Fund, and has requested further funding support from the International Monetary Fund.</p> | <p>The creditworthiness and potential risks relating to the banks in Ukraine are regularly reviewed by the Group, but the geopolitical and economic events in Ukraine over recent years have significantly weakened the Ukrainian banking sector. This has been exacerbated by the current military conflict in Ukraine. 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 the 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.</p> |

Principal Risks and Uncertainties CONTINUED

| Risk | Mitigation |
|--|---|
| External risks | |
| Geopolitical environment in Ukraine | |
| <p>Although there were some improvements in recent years, there has not been a final resolution of the political, fiscal and economic situation in Ukraine, and the current military conflict has had a severe detrimental effect on the economic situation in Ukraine. The ongoing effects of this are difficult to predict and likely to continue to affect the Ukrainian economy and potentially the Group's business. This situation is currently affecting the Group's production and field operations, and the ongoing instability is disrupting the Group's development and operational planning for its assets.</p> | <p>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 Smart Holding (Cyprus) Limited, as an indirect major shareholder with extensive experience in Ukraine, is considered helpful to mitigate such risks. However, the invasion of Ukraine creates material challenges in planning future investment and operations. The Group is limiting its operational activities to minimise risk to its staff and contractors, and to limit its financial exposure.</p> |
| Climate change | |
| <p>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 operations through increasing regulatory oversight and controls, including potential effective or actual loss of licences to operate. As a diligent operator, aware of 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.</p> | <p>The Group's plans 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. The HSE Committee, which was established in 2020, is specifically tasked with overseeing measuring, benchmarking and mitigating the Group's environmental and climate impact, which will be reported on in future periods. At this stage, the Group does not consider climate change to have any material implications on the Group's financial statements, including accounting estimates.</p> |
| Operational and technical risks | |
| Quality, Health, Safety and Environment ("QHSE") | |
| <p>The oil and gas industry, by its nature, conducts activities that can cause health, safety, environmental and security incidents. Serious incidents can not only have a financial impact but can also damage the Group's reputation and the opportunity to undertake further projects. The military conflict in Ukraine poses significant risks to field operations, by way of potential threat to the lives of employees and contractors, and damage to equipment and infrastructure.</p> | <p>The Group maintains QHSE policies and requires that management, staff and contractors adhere to these policies. The policies ensure that the Group meets Ukrainian legislative standards in full and achieves international standards to the maximum extent possible. As a consequence of the COVID-19 pandemic, the Group has implemented processes and controls intended to ensure protection of all our stakeholders and minimise any disruption to our business. As a consequence of the current military conflict in Ukraine, operations at the VAS field and SC licence area are currently suspended entirely, and only limited field and production operations are continuing at the MEX-GOL and SV fields. Only essential staff are located at site, and all other staff are working remotely, either from areas away from the conflict areas or outside Ukraine. The Group has invested in technology that allows many staff to work just as effectively from remote locations.</p> |

| Risk | Mitigation |
|---|--|
| Operational and technical risks | |
| Industry risks | |
| <p>The Group is exposed to risks that are generally associated with the oil and gas industry. For example, the Group's ability to pursue and develop its projects and undertake development programmes depends on a number of uncertainties, including the availability of capital, seasonal conditions, regulatory approvals, gas, oil, condensate and LPG prices, development costs and drilling success. As a result of these uncertainties, it is unknown whether potential drilling locations identified on proposed projects will ever be drilled or whether these, or any other potential drilling locations, will be able to produce gas, oil or condensate. In addition, drilling activities are subject to many risks, including the risk that commercially productive reservoirs will not be discovered. Drilling for hydrocarbons can be unprofitable, not only due to dry holes, but also as a result of productive wells that do not produce sufficiently to be economic. In addition, drilling and production operations are highly technical and complex activities and may be curtailed, delayed or cancelled as a result of a variety of factors.</p> | <p>The Group has well qualified and experienced technical management staff to plan and supervise operational activities. In addition, the Group engages with suitably qualified local and international geological, geophysical and engineering experts and contractors to supplement and broaden the pool of expertise available to the Group. Detailed planning of development activities is undertaken with the aim of managing the inherent risks associated with oil and gas exploration and production, as well as ensuring that appropriate equipment and personnel are available for the operations, and that local contractors are appropriately supervised.</p> |
| Production of hydrocarbons | |
| <p>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.</p> | <p>In recent years, the Group has 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 are being used by the Group in the future development of these fields. 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.</p> |
| Risks relating to further development and operation of the Group's gas and condensate fields in Ukraine | |
| <p>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 the 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 military conflict in Ukraine is impacting planning and implementation of development and operations at the Group's fields.</p> | <p>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 regards to operational activities, the Group ensures that appropriate equipment and personnel are available for the operations, and that operational contractors are appropriately supervised. In addition, the Group performs a review of indicators of impairment of its oil and gas assets 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.</p> |

Principal Risks and Uncertainties CONTINUED

| Risk | Mitigation |
|---|--|
| Operational and technical risks | |
| Drilling and workover operations | |
| Due to the depth and nature of the reservoirs in the Group's fields, the technical difficulty of drilling or re-entering wells in the Group's fields is high, and this, and the equipment limitations within Ukraine, can result in unsuccessful or lower than expected outcomes for wells. | The utilisation of detailed sub-surface analysis, careful well planning and engineering design in designing work programmes, along with appropriate procurement procedures and competent on-site management, aims to minimise these risks. |
| Maintenance of facilities | |
| There is a risk that production or transportation facilities can fail due to non-adequate maintenance, control or poor performance of the Group's suppliers. | The Group's facilities are operated and maintained at standards above the Ukrainian 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 military conflict in Ukraine has disrupted production operations at the Group's fields, and consequently reduced anticipated cash flows from those fields, and this has increased the risk regarding sufficiency of capital for development. In addition, the conflict may disrupt the sales market for hydrocarbons that are produced. Currently, however, hydrocarbon prices are very high, which is ameliorating the potential reduction in cash flows, and the Group's sales counterparties are meeting their financial obligations. | 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 aims to maintain the significant majority of its cash resources outside Ukraine (being 77% as at 24 June 2022). 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 Group's liquidity. 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. |

| Risk | Mitigation |
|--|--|
| Financial risks | |
| Hydrocarbon price risk | |
| <p>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 its growth rate, which in turn may impact the Company's 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 that the Group can produce economically, as would increases in costs associated with hydrocarbon production, such as subsoil taxes and royalties. The overall economics of the Group's key assets (being the net present value of the future cash flows from its Ukrainian projects) are far more sensitive to long-term gas, condensate and LPG prices than short-term price volatility. However, short-term volatility does affect liquidity risk, as, in the early stage of the projects, income from production revenues is offset by capital investment. In addition, the military conflict in Ukraine may disrupt the sales market for hydrocarbons, although, currently, hydrocarbon prices are very high, and the Group's sales counterparties are meeting their financial obligations.</p> | <p>The Group sells a proportion of its hydrocarbon production through offtake arrangements, which include pricing formulae so as to ensure that it achieves market prices for its products, as well as 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. In January 2022, the Ukrainian Government imposed temporary partial gas price regulations until 30 April 2022, designed to support the production of certain designated food products. Whilst an unhelpful interference in the functioning of the deregulated gas supply market in Ukraine, in its stated form and duration, this temporary scheme is not a material risk to the Company and its cash generation, and has now expired.</p> |
| Currency risk | |
| <p>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 UAH27.3/\$1.00 on 31 December 2021. This devaluation has been a significant contributor to the imposition of banking restrictions by the National Bank of Ukraine over recent years. In addition, the geopolitical events in Ukraine over recent years and the current military conflict in Ukraine are likely to continue to impact the valuation of the Ukrainian Hryvnia against major world currencies. Further devaluation of the Ukrainian Hryvnia against the US Dollar will affect the carrying value of the Group's assets.</p> | <p>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.</p> |
| Counterparty and credit risk | |
| <p>The challenging political and economic environment in Ukraine and current military conflict 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.</p> | <p>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.</p> |

Principal Risks and Uncertainties CONTINUED

| Risk | Mitigation |
|---|--|
| Financial risks | |
| Financial markets and economic outlook | |
| <p>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 difficulty, the COVID pandemic, and more particularly, the current military conflict in Ukraine. 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.</p> | <p>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 overall exposure that the Group faces as a result of these risks cannot be predicted and many of these are outside of the Group's control.</p> |
| Corporate risks | |
| Ukrainian production licences | |
| <p>The Group operates in a region where the right to production can be challenged by State and non-State parties. During 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. 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 able to continue (although the Russian invasion has currently caused production to be suspended), but this matter remains unresolved. In 2020, LLC Arkona Gas-Energy ("Arkona") faced a challenge from PJSC Ukrnafta concerning the validity of its SC licence, which was ultimately resolved in Arkona's favour by a decision of the Supreme Court of Ukraine in February 2021. 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, production licences in Ukraine are issued with and/or carry ongoing compliance obligations, which if not met, may lead to the loss of a licence.</p> | <p>The Group ensures compliance with commitments and regulations relating to its production licences through Group procedures and controls or, where this is not immediately feasible for practical or logistical considerations, seeks to enter into dialogue with the relevant Government bodies with a view to agreeing a reasonable time frame for achieving compliance or an alternative, mutually agreeable course of action. Work programmes are designed to ensure that all licence obligations are met and continual interaction with Government bodies is maintained in relation to licence obligations and commitments.</p> |
| Risks relating to key personnel | |
| <p>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 current military conflict in Ukraine has meant that, as far as possible, the Group's staff have needed to move away from areas of conflict and work remotely.</p> | <p>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 provide specialist services as required. As a result of the military conflict, only essential staff are located at site, and all other staff are working remotely, either from areas away from the conflict areas or outside Ukraine. The Group has invested in technology that allows many staff to work just as effectively from remote locations.</p> |

Statement by the Directors

in performance of their statutory duties in accordance with Section 172(1) of the Companies Act 2006

Introduction

The Directors of the Company must act in accordance with a set of general duties, which are detailed in Section 172(1) of the Companies Act 2006, as follows:

“A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the company’s employees;
- the need to foster the company’s business relationships with suppliers, customers and others;
- the impact of the company’s operations on the community and environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.”

The Directors are mindful of their duty to promote the success of the Company as described above. Details of how the Directors have had regard to these matters can be found throughout this Annual Report and Financial Statements, where we provide examples of how we: take into account the likely consequences of long-term decisions; understand the importance of engaging with our employees; build relationships with stakeholders; understand the impact of our operations on the communities in our region and the environment we depend upon; attribute importance to behaving as a responsible business; and ensure that we act fairly between shareholders.

Statement

The Directors of the Company consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole (having regard to the stakeholders and matters set out in Section 172(1)(a-f) of the Companies Act 2006) in the decisions taken during the year ended 31 December 2021. Examples of this include:

■ Long-term decision-making

We have a strategy for the development of our business and our oil and gas assets in Ukraine, and retain, monitor and adjust a corporate financial model for the economic life of our assets. Our plan is designed to have a long-term beneficial impact on the Company and to contribute to its success in safely producing gas, condensate and LPG from our fields in Ukraine. We will continue to operate our business with robust and documented financial and operational controls and in line with safety and environmental regulations and requirements.

■ Employees’ interests

Our employees are fundamental to the delivery of our business plan. We aim to be a responsible employer in our approach to the remuneration and benefits that our employees receive. The health, safety and wellbeing of our employees is one of our primary considerations in the way we do business, and the training and development of our employees to develop their skills and expertise is fundamental in the highly technical and specialised oil and gas industry.

■ Relationships with stakeholders

We aim to operate our gas and condensate fields in Ukraine safely and efficiently for the benefit of all of our stakeholders, including employees, Government, investors, local community and suppliers. In the operational extraction and production of gas, condensate and LPG, there are many risks, including to health, safety and the environment. In our operational activities, we rigorously apply our quality, health, safety and environmental (“QHSE”) policies to protect the safety of our employees and contractors, and to protect the environment from pollution. In the delivery of our hydrocarbon products, we aim to ensure that our products meet all applicable regulatory requirements and to be a reliable and consistent supplier to our customers. We also aim to act responsibly and fairly in how we engage with our contractors, suppliers and customers, and to co-operate with our industry regulators, all of which are integral to the successful delivery of our business plan and the stewardship of the resources we manage.

■ Impact on community and environment

Our business plan takes into account the impact of the Company’s operations on the community and environment in which we operate, and our wider societal responsibilities, particularly in Ukraine at our operational sites. We have a number of corporate social responsibility (“CSR”) initiatives in Ukraine, and have supported a number of community projects, including support of local schools (e.g. materials for repair works and funding of school meals) and youth sports, as well as the repair of roads and local infrastructure. More recently, we contributed funds for the procurement of medical equipment and supplies for donation to the Ukrainian State and charitable foundations to aid their initiatives to protect the population from the health impact of the COVID-19 pandemic. We also strictly adhere to our QHSE policies in our approach to the environment and ensure compliance with applicable health, safety and environmental regulatory requirements.

SECR Streamlined Energy and Carbon Reporting (“SECR”)

We remain very aware of the current drive globally to monitor, reduce and report levels of energy use in delivering Group performance, and note that SECR reporting requirements apply to the Group. However, as our United Kingdom emissions are de-minimis, with only two full-time employees in the United Kingdom and no operational presence, we fall below the minimum threshold and are currently exempt from reporting such information. Notwithstanding that exemption, we are actively reviewing our Ukrainian operations to determine the processes of self-reporting for our global operations and formulating the content of our intended self-reporting.

This initiative is intended to:

- disclose the environment-related data currently collected, including: energy consumed, water consumed, greenhouse gas emissions and waste generated (in natural units and relative to volumes of extracted gas);
- determine any additional applicable indicators to be added, for example: natural gas and solid fuel consumed for heating, compressors and other equipment; diesel fuel used in diesel generators; consumption of petrol and diesel in vehicles, etc.;
- determine potential benchmarks; and
- determine the reporting frequency.

We will keep shareholders updated on this initiative of recognised significance.

Statement by the Directors

in performance of their statutory duties in accordance with Section 172(1) of the Companies Act 2006 **CONTINUED**

■ Business conduct

We aim to ensure that the Company behaves responsibly in the wider community, and that our business is operated in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours. We have in place, and monitor adherence to, our Anti-Bribery and Corruption Policy and a range of QHSE-related policies. This approach contributes to the delivery of our business plan by ensuring we work in an honest and ethical way, and we require the same from our employees, contractors and others connected with the business.

■ Fair engagement with shareholders

Our intention is always to behave responsibly toward our shareholders and treat them fairly and equally, so they, too, may benefit from the successful delivery of our business plan. In light of our significant majority shareholder, we have in place a Relationship Agreement to ensure that the management and governance of the Company is, and remains, independent. We have adopted and, subject to limited exceptions, adhere to the Quoted Companies Alliance Corporate Governance Code 2018 ("QCA Code") to ensure clearly defined governance procedures within our business.

Strategic Report Approval

The Strategic Report, which incorporates Highlights, Where We Operate, Chairman's Statement, Chief Executive's Statement, Business Model, Our Strategic Priorities, Overview of Assets, Overview of Reserves, Finance Review, Key Performance Indicators, Sustainability, Principal Risks and Uncertainties and Statement under s172(1) of the Companies Act 2006, was approved by the Board on 28 June 2022 and signed on its behalf by:

Chris Hopkinson

Chairman



Governance

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Board of Directors



Chris Hopkinson
Non-Executive Chairman

A R H

Chris Hopkinson was appointed as a Non-Executive Director in September 2017, and became Non-Executive Chairman in October 2017. Mr Hopkinson has extensive experience in the oil and gas industry, having worked in senior management roles in Kazakhstan, Africa, the Russian Federation and the Middle East. He began his career with Shell International, followed by technical and management roles with Yukos and Lukoil Overseas, before becoming Chief Executive Officer of Imperial Energy Group up until its acquisition by ONGC in 2009. He was then Non-Executive Western Siberia for TNK-BP, Senior Vice-President North Africa for BG Group, Chief Executive Officer of International Petroleum Limited, and Chief Operating Officer for JSC National Company KazMunayGas. Mr Hopkinson is a member of the Society of Petroleum Engineers, and holds a BSc (Hons) in Applied Physics from St Andrews University.



Sergii Glazunov
Chief Executive Officer

H

Sergii Glazunov was appointed as Chief Executive Officer in August 2017, having previously been Finance Director since November 2014, and a Non-Executive Director since February 2012 as a nominee of the Company's indirect majority shareholder, Smart Holding (Cyprus) Limited. He is also the Chief Executive Officer of LLC Smart Energy. Prior to joining the Smart Holding Group, Mr Glazunov held positions as Deputy Chief Executive Officer at JSC Concern AVEC & Co and Vice-President at JP Morgan Chase and Bank One Investment Management Group. He also has extensive teaching and academic research experience working at Wayne State and Michigan State Universities. Mr Glazunov is a Chartered Financial Analyst and holds an MSc in Mathematics from Kyiv State University, an MSc in Statistics from Michigan State University and an MBA from Wayne State University.



Bruce Burrows
Finance Director

A R

Bruce Burrows was appointed as Finance Director in June 2019, having previously been a Non-Executive Director since August 2017. Mr Burrows has extensive experience in the oil and gas industry, and, in particular, Ukraine and Eastern Europe, having been Finance Director of JKC Oil & Gas for 14 years until 2011. Since then, he has been Chief Financial Officer of Seven Energy International, Lekoil, and AITEO Group, and has served as a Non-Executive Director of Azonto Petroleum and European Goldfields. He is a member of the Institute of Chartered Accountants of Australia & New Zealand, and holds a BSc Honours from Canterbury University (New Zealand) and a Diploma in Accounting from Victoria University (New Zealand).

KEY **A** Audit Committee **R** Remuneration Committee **H** Health, Safety and Environment Committee **■** Chairman of the Committee



Dmitry Sazonenko
Non-Executive Director

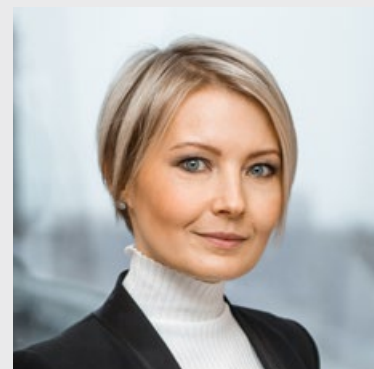
A R H

Dmitry Sazonenko was appointed as a Non-Executive Director in September 2018. Mr Sazonenko is a geologist and petroleum engineer with extensive experience in the oil and gas industry in the Russian Federation and former CIS countries. He began his career with the Russian Academy of Science, before moving to the private sector with technical and management roles with Yukos, Lukoil Overseas, Imperial Energy, Total, International Petroleum and Eurotek-Yugra, the Repsol-Gazpromneft joint venture in the Russian Federation. Mr Sazonenko is a member of the Society of Petroleum Engineers, the American Association of Petroleum Geologists and the European Association of Geoscientists and Engineers, and has an MSc in Geology from Novosibirsk State University, an MSc in Petroleum Engineering from Heriot-Watt University, a Diploma in Oil and Gas Economics and Management from Gubkin University, Moscow, and is a Certified Project Management Specialist accredited by the International Project Management Association.



Alexey Pertin
Non-Executive Director

Alexey Pertin was appointed as a Non-Executive Director in April 2011 and is a nominee of the Company's indirect majority shareholder, Smart Holding (Cyprus) Limited. He is currently Chairman of the Supervisory Board of PJSC Smart-Holding, having previously been Chief Executive Officer of PJSC Smart-Holding. He is also Deputy Chairman of the Supervisory Board of Metinvest B.V., and Chairman of the Strategic & Investment Committee of the Supervisory Board of Metinvest B.V.. He also holds Director positions with Adeona Holdings Limited, Smart Holding (Cyprus) Limited and Smart Holding N.V.. Mr Pertin previously held the position of Strategy and Corporate Development Director of PJSC Smart-Holding. Prior to joining the Smart Holding Group, he held various management positions at JSC Severstal-Group, including the positions of Deputy Chief Executive Officer for Business Development at JSC Severstal-Group and Chief Executive Officer of CJSC Izhora Pipe Plant. Mr Pertin graduated from Cherepovets State University and Saint Petersburg State Technical University with qualifications in financial management, and he also holds an MBA from Newcastle Business School, England.



Yuliia Kirianova
Non-Executive Director

Yuliia Kirianova was appointed as a Non-Executive Director in May 2016 and is a nominee of the Company's indirect majority shareholder, Smart Holding (Cyprus) Limited. Ms Kirianova is currently the Chief Executive Officer of PJSC Smart-Holding, having previously been Chief Financial Officer and First Deputy Chief Executive Officer of PJSC Smart-Holding. Prior to joining the Smart Holding Group, Ms Kirianova held positions at ING Bank Ukraine, JSC System Capital Management and LLC DCH Investment Management. Ms Kirianova holds a degree in Finance from the National Academy of Management, Kyiv and an MBA from the Open University.

Corporate Governance Statement

The Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (“QCA Code”). This statement sets out how the Company complies with, or departs from, the 10 principles of the QCA Code.

1. Strategy and business model

The Group is engaged in the exploration and development of oil and gas projects, with assets in Ukraine.

The Directors of the Company set the Company's strategy and monitor its implementation through management and financial performance reviews. The Board also works to ensure that adequate resources are available to implement the Company's strategy in a timely manner. The Company has set out a strategy and business model (including the key challenges to its implementation) to promote long-term value creation for shareholders and will update all shareholders on this in its Annual Report each year.

The Board meets on a regular basis to discuss the strategic direction of the Company and any significant deviation or change will be highlighted promptly should this occur.

2. Understanding and meeting shareholders' needs and expectations

The Company is committed to listening to, and communicating openly with, its shareholders to ensure that its strategy, business model and performance are clearly understood. The Annual General Meeting is a forum for shareholders to engage in dialogue with the Board. The results of the Annual General Meeting are published via a regulatory information service and can be found in the News section of the Company's website at www.enwell-energy.com.

Chris Hopkinson, Chairman, Sergii Glazunov, Chief Executive Officer, and Bruce Burrows, Finance Director, are the principal contacts between the Company and its shareholders, with whom they each maintain a regular dialogue. The views of shareholders are communicated to the whole Board.

The Company's progress on achieving its key targets is regularly communicated to investors through its announcements to the market. The Company also utilises other professional advisers such as the Company's Nominated Adviser, Broker and the Company Secretary, who provide advice and recommendations on shareholder communication.

3. Taking into account wider stakeholder and social responsibilities and their implications for long-term success

The Board members recognise their responsibilities to stakeholders including staff, suppliers, customers, regulators and within the communities in which the Company operates. The Company has senior managers of its operating divisions who provide regular feedback to the Chief Executive Officer, who then ensures that the Board as a whole is informed of any major developments. In turn, the Board communicates with management and staff on key issues which may affect them in connection with the Group's business.

The Company is involved in the local communities close to its operations through sponsorship and community projects and activities. Careful attention is given to ensure that all operational activities are performed in an environmentally responsible manner and in accordance with applicable laws and regulations. Both the involvement in local communities and the performance of operational activities in an environmentally responsible manner are monitored by the Board to ensure that ethical values and behaviours are recognised.

4. Embedding effective risk management

The Board regularly reviews the risks facing the business and the internal controls which are in place to address these risks. The Company has a Management Risk Committee that monitors the Group's business operations and identifies key risks that are faced. The Management Risk Committee maintains a Risk Register and Mitigation Plan that is formally reviewed and updated quarterly. The Management Risk Committee regularly reports to the Board on risk management and mitigation.

The Company is committed to maintaining the highest quality, health, safety and environment (“QHSE”) standards and the effective management of these areas is an intrinsic element of the overall business ethos. The Company has a Health, Safety and Environment Committee that oversees and monitors the Group's activities and adherence to its QHSE policies, as well as supervising the updating and implementation of such policies. The Health, Safety and Environment

Committee meets regularly and reports to the Board on all QHSE matters. Through strict enforcement of the Group's QHSE policies, together with regular management meetings, training and the appointment of dedicated safety professionals, the Company strives to ensure that the impact of its business activities on its staff, contractors and the environment is as low as is reasonably practicable. The Company reports safety and environmental performance in accordance with oil industry practice and guidelines.

The Board is responsible for the Group's system of internal control and reviewing its effectiveness. Any such system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. However, the Company believes that its internal control systems are appropriate to the Company's business. Internal controls are assessed for effectiveness and risks are monitored and reviewed through regular Board and management meetings.

5. Maintaining a balanced and well-functioning Board

In the spirit of the QCA Code, it is the Board's function to ensure that the Company is managed for the long-term benefit of all shareholders and other stakeholders with effective and efficient decision-making. Corporate governance is an important part of that function, reducing risk and adding value to the Company. The Chairman oversees Corporate Governance compliance for the Company and the Board monitors the governance framework of the Company on an ongoing basis.

As an AIM-quoted company, the Company is required to apply a recognised corporate governance code, demonstrating how it complies with such corporate governance code and where it departs from it.

The Board has formally adopted the QCA Code as the basis for its corporate governance framework. The Board recognises the principles of the QCA Code, which focus on the creation of medium to long-term value for shareholders. The Company will provide annual updates on its compliance with the QCA Code in its Annual Reports.

The composition of the Board is as follows:

| Board Member | Meetings Attended (out of a total possible) |
|-------------------------------|--|
| Chris Hopkinson (Chairman) | 13/16 |
| Sergii Glazunov | 16/16 |
| Alexey Pertin | 0/16 |
| Yuliia Kirianova | 7/16 |
| Bruce Burrows | 16/16 |
| Dmitry Sazonenko | 16/16 |

The Board comprises six Directors, being the Non-Executive Chairman, the Chief Executive Officer, the Finance Director and three Non-Executive Directors, reflecting a blend of different experience and backgrounds. The Non-Executive Chairman is Chris Hopkinson. The Chief Executive Officer, Sergii Glazunov, and two of the Non-Executive Directors are nominees of Smart Holding (Cyprus) Limited, the indirect majority shareholder of the Company. The Company has entered into a Relationship Agreement with Smart Holding (Cyprus) Limited, which regulates the relationship between them to ensure that the business and affairs of the Company are managed by the Board, independently of Smart Holding (Cyprus) Limited and its associated entities. The Board also has procedures in place to monitor and deal with Directors' conflicts of interest. The Directors are expected to devote such time as is necessary for the proper performance of their respective duties. The Executive Directors are employees of the Group, and the Non-Executive Directors are expected to spend a minimum number of days on the Group's business each year. The Board considers Chris Hopkinson and Dmitry Sazonenko to be independent Non-Executives in terms of the QCA guidelines, although given the size of the Company, the Board has not appointed a senior independent Director.

The Board is responsible for setting the direction of the Company through the establishment of strategic objectives and key policies. The Board has a schedule of matters reserved for its review and approval, and such items include Group strategy, approval of major capital expenditure projects, approval of the annual and interim results, annual budgets, dividend policy, Board composition and structure, and appointment and assessment of senior management. The Board monitors the exposure to key business risks and reviews the strategic direction of all operating subsidiaries, their annual budgets, their performance in relation to those budgets and their capital expenditure. The Board maintains its independence from the day-to-day responsibility for managing the business, which it delegates to the Chief Executive Officer and the senior management team. The Chief Executive

Officer, being the senior Executive Director, has a particular role and area of responsibility and continually engages with the Company's shareholders and stakeholders.

Regular Board meetings are held (a minimum of four per year) and ad hoc meetings are scheduled as required. The attendance at Board and Committee meetings during the year will be reported in the Annual Report. All Directors have access to management, including the Company Secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively. Furthermore, all Directors are entitled to seek independent professional advice concerning the affairs of the Company, at its expense.

All Directors are subject to election by shareholders at the first opportunity following their appointment by the Board. In addition, Directors will retire by rotation and stand for re-election by shareholders at least once every three years in accordance with the Company's Articles of Association.

Further details of the Board of Directors, and their roles and background, are set out in the preceding pages of this Report.

6. Having appropriate experience, skills and capabilities on the Board

The Board has a mix of experience, skills, gender, linguistic and personal qualities that help deliver the strategy of the Company, including managerial, technical and financial expertise in the oil and gas industry. The composition of the Board ensures that no one individual or group dominates the decision-making process. The Company will ensure that between them, the Directors have the necessary up-to-date experience, skills and capabilities to deliver the Company's strategy and targets. The Directors keep their respective skills up to date through a combination of attendance at relevant industry events and conferences, continued professional development and experience gained from other board and management roles.

7. Evaluating Board performance

Given the Company's current size, the Board has not considered it necessary to undertake an external assessment of the Board performance and effectiveness during the period, but monitors for any such need.

8. Ethical values and behaviours

The Company operates a corporate culture that is based on ethical values and behaviours. It maintains a quality system appropriate to the standards required for a Company of its size. The Board communicates regularly with management through meetings and messages, and information is cascaded to staff at operating subsidiaries via management meetings with operational personnel.

The Company maintains appropriate policies, which reflect these values, including an Anti-Bribery and Corruption Policy in relation to its compliance with the Bribery Act 2010, and Policies on Disclosure of Inside Information and Share Dealing. These policies set out the high ethical standards required of the Group's staff in the course of carrying out its business activities regarding dealing with gifts, hospitality, corruption, fraud, the use of inside information and whistle-blowing.

9. Maintaining governance structures and processes

The Board

In addition to the Chairman's Statement and explanation provided under principle 5 above, the Chairman is responsible for the leadership of the Board and is pivotal to fostering a culture that adopts good corporate governance.

The Chairman, together with the rest of the Board, sets the direction for the Company through a formal schedule of matters reserved for its decision. The Chief Executive Officer, as senior Executive Director, has a particular role and area of responsibility and continually engages with the Company's shareholders and stakeholders. The Board has a schedule of matters reserved for its review and approval, and such items include Group strategy, approval of major capital expenditure projects, approval of the annual and interim results, annual budgets, dividend policy, Board composition and structure, and the appointment and assessment of senior management. The Board monitors the exposure to key business risks and reviews the strategic direction of all operating subsidiaries, their annual budgets, their performance in relation to those budgets and their capital expenditure. The Board delegates day-to-day responsibility for managing the business to the Chief Executive Officer and the senior management team.

Corporate Governance Statement CONTINUED

Committees

The Board has established three Committees, being the Audit Committee, Remuneration Committee and Health, Safety and Environment Committee. The Audit Committee and Remuneration Committee are composed of independent Non-Executive Directors (Chris Hopkinson and Dmitry Sazonenko) and an Executive Director (Bruce Burrows), and the Health, Safety and Environment Committee is composed of independent Non-Executive Directors (Chris Hopkinson and Dmitry Sazonenko) and an Executive Director (Sergii Glazunov). The QCA Code recommends that the membership of these Committees is made up of only non-executive directors, but given the size of the Company and the fact that three of the Directors are nominees of Smart Holding (Cyprus) Limited, the indirect majority shareholder of the Company, the Board considers that the composition of these Committees is appropriate in the circumstances.

Audit Committee

The Audit Committee meets not less than twice a year to review the published financial information, and the effectiveness of external audit and internal financial controls. It deals with the appointment, terms of engagement and fees of the external Auditors, the scope of the audit, review of the financial statements and reports, including any changes to accounting policies or practices, and the review of the Group's system of risk management and internal controls and compliance with applicable laws and regulations. Meetings are normally attended, by invitation, by a representative of the Auditors.

The composition of the Audit Committee is as follows:

| Committee Member | Meetings Attended (out of a total possible) |
|-------------------------------|--|
| Chris Hopkinson (Chairman) | 1/2 |
| Dmitry Sazonenko | 2/2 |
| Bruce Burrows | 2/2 |

Remuneration Committee

The Remuneration Committee is responsible for establishing and developing the Company's general policy on executive and senior management remuneration, having regard to the need to attract and retain individuals of the highest calibre and with the appropriate experience to make a significant contribution to the Group, and determining specific remuneration packages for Executive Directors and senior management.

The composition of the Remuneration Committees is as follows:

| Committee Member | Meetings Attended (out of a total possible) |
|-------------------------------|--|
| Chris Hopkinson (Chairman) | 1/1 |
| Dmitry Sazonenko | 1/1 |
| Bruce Burrows | 1/1 |

Health, Safety and Environment Committee

The Health, Safety and Environment Committee meets not less than once a year to oversee and monitor QHSE matters affecting the Company and its business activities. It is responsible for the supervision of QHSE matters, including evaluation of the effectiveness of QHSE policies, assessment of Group performance regarding the impact of decisions relating to QHSE issues, oversight of compliance of QHSE policies with applicable international and oil industry practice and guidelines, and development and maintenance of the framework of QHSE policies for the management and reporting of QHSE issues affecting the Group.

The composition of the Health, Safety and Environment Committees is as follows:

| Committee Member | Meetings Attended (out of a total possible) |
|--------------------------------|--|
| Dmitry Sazonenko (Chairman) | 2/2 |
| Chris Hopkinson | 2/2 |
| Sergii Glazunov | 2/2 |

Nomination Committee

The Directors do not consider that, given the size of the Company, it is appropriate to have a Nomination Committee. Any matters which would normally be dealt with by such a committee are considered by the Board. The appropriateness of such a committee will, however, be kept under regular review by the Company.

10. Communicating with shareholders and other relevant stakeholders

The Board recognises that it is accountable to shareholders for the performance and activities of the Company and the Group. The Board engages in discussions with shareholders as appropriate from time to time through formal meetings or correspondence and audio-visual and telephone discussions. The Annual General Meeting of the Company provides an opportunity for the Directors to present to the shareholders a report on current operations and developments and enables the shareholders to express their views about the Company's business.

As required by Rule 26 of the AIM Rules for Companies, the Company publishes historical Annual Reports, Interim Reports, Notices of General Meetings and all announcements since the Company's admission to the AIM Market, which are available in the News section of its website at www.enwell-energy.com.

The Board does not publish an Audit Committee or Remuneration Committee report in its Annual Report as the Board considers this is not appropriate given the size and stage of development of the Company. The Board will consider annually whether it considers it appropriate for these reports to be included in future Annual Reports.

Directors' Report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2021.

Statement under Section 172(1) of the Companies Act 2006

The Statement by the Directors in the performance of their statutory duties in accordance with Section 172(1) of the Companies Act 2006 is set out in the Strategic Report.

Future Developments

The future developments relating to the Group are described in the Strategic Report, and are therefore not repeated in the Directors' Report in accordance with Section 414C(11) of the Companies Act 2006 and related statutory requirements.

Proposed Dividend

The Directors do not recommend the payment of a dividend (2020: \$nil).

Capital Structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in Note 27. The Company has one class of ordinary shares, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association of the Company and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles of Association themselves may be amended by special resolution of the shareholders. The powers of the Directors are described in the Corporate Governance Statement.



Directors' Report CONTINUED

Directors and Directors' Interests

The Directors who held office during the year and up to the date hereof were as follows:

Chris Hopkinson
Sergii Glazunov
Alexey Pertin
Yuliia Kirianova
Bruce Burrows
Dmitry Sazonenko

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of the Company or any other Group companies.

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year.

Directors' Indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors in accordance with Section 234 of the Companies Act 2006, which were made during the year and remain in force at the date of this report.

Political Contributions

During the year, the Group did not make any political contributions (2020: \$nil).

Financial Risk Management

The Group's financial risk management is disclosed in the Strategic Report, and is therefore not repeated in the Directors' Report in accordance with Section 414C(11) of the Companies Act 2006 and related statutory requirements.

Post Balance Sheet Events

Details of significant events since the Balance Sheet date are contained in Note 33.

Substantial Shareholders

As at 28 June 2022, the Company had been notified of the following interests of 3% or more in its issued share capital:

| Substantial Shareholder | Number of shares | % of issued ordinary share capital |
|-----------------------------|------------------|------------------------------------|
| Smart Energy (CY) Limited * | 264,996,769 | 82.65% |
| Pope Asset Management | 22,273,339 | 6.95% |

* Smart Energy (CY) Limited is 100% owned by Smart Holding (Cyprus) Limited (incorporated in the Republic of Cyprus), which is 100% owned by Mr Vadym Novynskyi.

Going Concern Assessment

The Directors have assessed the ability of the Group and the Company to continue as a going concern, including considering the impact of the recent and ongoing military conflict in Ukraine, and the results of this assessment are set out in Note 2.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's Auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's and Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as Independent Auditors will be proposed at the next Annual General Meeting.

On behalf of the Board

Chris Hopkinson
Chairman

28 June 2022

Independent Auditors' Report to the Members of Enwell Energy plc

Report on the audit of the financial statements

Opinion

In our opinion, Enwell Energy plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's profit and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2021; the consolidated income statement, the consolidated and company statements of comprehensive income, the consolidated and company cash flow statements, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern (Group)

In forming our opinion on the Group financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 2 to the financial statements concerning the Group's ability to continue as a going concern. The Group's operations are entirely based in Ukraine. On 24 February 2022, Russia commenced a military invasion of Ukraine. The future development of

this conflict and the potential short and long-term impact on the Group's operations, staff and assets in Ukraine, is inherently uncertain. These conditions, along with the other matters explained in Note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and realise its assets in the normal course of business. The Group financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

In auditing the Group financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Group financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included:

- We obtained the Directors' assessment and conclusions with respect to going concern.
- We discussed the going concern assessment with management and those charged with governance and challenged the key assumptions, estimates and judgements made in the assessment.
- We tested the cash flow model used in the going concern assessment.
- We assessed the likelihood of the different scenarios and sensitivities considered by the Directors, with specific consideration of the potential impact of the Russian military invasion of Ukraine.
- We considered the appropriateness of the disclosures made in respect of going concern in the Group financial statements.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Our audit approach

Overview

Audit scope

- We conducted full scope audits of two components out of the Group's seven components which were selected due to their size and risk characteristics. An audit of one or more account balances, classes of transactions or disclosures was performed at a further three components.
- This enabled us to obtain coverage of 100% of consolidated revenue, 100% coverage of consolidated profit before tax and 100% coverage of consolidated total assets of the Group.

Key audit matters

- Material uncertainty related to going concern (Group) (refer to 'Material uncertainty related to going concern (Group)' above).
- Carrying value of investments in, and loans to, subsidiary undertakings (Parent).
- Impact of the Russian military invasion of Ukraine (Group and Parent).

Materiality

- Overall Group materiality: US\$1,600,000 (2020: US\$759,000) based on 5% of three-year average (2020: two-year average) profit before tax adjusted for non-recurring items.
- Overall Company materiality: US\$1,511,000 (2020: US\$1,372,000) based on 1% of total assets.
- Performance materiality: US\$1,200,000 (2020: US\$569,250) (Group) and US\$1,133,000 (2020: US\$1,029,000) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

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

In addition to going concern, described in the 'Material uncertainty related to going concern (Group)' section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Impact of the Russian military invasion of Ukraine is a new key audit matter this year. Impact of COVID-19, which was a key audit matter last year, is no longer included because of the relatively insignificant financial and operational impact of COVID-19 on the Group during the year under audit. Otherwise, the key audit matters below are consistent with last year.

Independent Auditors' Report to the Members of Enwell Energy plc CONTINUED

Report on the audit of the financial statements

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p>Carrying value of investments in, and loans to, subsidiary undertakings (Parent)</p> <p>Refer to Note 3 'Significant Accounting Judgements and Estimates' and Note 20 'Investments and Loans to Subsidiary Undertakings'. As at 31 December 2021, the Company has a total investment in subsidiaries of US\$ 87.4 million (2020: US\$ 98.1 million) comprising investment in shares of US\$ 38.5 million (2020: US\$ 35.3 million) and loans of US\$ 48.9 million (2020: US\$ 62.8 million).</p> <p>As a result of the improved forecast performance of the Group, management updated its assessment of the expected credit loss on the Company's intercompany receivable and determined that the provision against the receivable should be reduced by US\$7.7 million. In addition, management updated its assessment of the recoverable amount of the Company's investments in its subsidiaries and determined that previous impairments of US\$3.2 million should be reversed.</p> <p>The assessment of the recoverability of the investments' carrying value involves subjective judgements about future business performance, with key assumptions including cash flows and discount rates. The assessment of expected credit loss requires subjective judgements and estimates of the timing of future cash flows.</p> <p>Accordingly, this was an area of focus for our audit as there is a risk that the carrying value of the Company's investments in subsidiaries and the intercompany receivables could be materially misstated.</p> | <p>To address the risk that the carrying amount of investments in, and loans to, subsidiary undertakings as at 31 December 2021, may be misstated, we performed the following procedures:</p> <ul style="list-style-type: none"> ■ Discussed with management the key assumptions used; ■ Evaluated the overall methodology applied in management's assessment of the expected credit losses on loans to subsidiaries and determination of the recoverable amounts of investments in subsidiaries for reasonableness and appropriateness, and verified the mathematical accuracy of the related cash flow models; ■ Validated the assumptions used by management by agreeing or comparing them to external and internal sources, where appropriate; recalculated the weighted average cost of capital using inputs from external sources; ■ Agreed internally generated assumptions to the approved budgets and management plans; ■ Performed sensitivity analysis to understand if reasonably possible changes in management's assumptions would result in a material change in the balances. <p>We concur with management's conclusions in respect of the carrying amount of investments in, and loans to, subsidiary undertakings as at 31 December 2021 and the resulting impact on profit or loss.</p> <p>We verified that the Company's assessment was appropriately accounted for and disclosed in the Company financial statements for the year ended 31 December 2021, including the disclosure of applicable estimates and judgements.</p> |
| <p>Impact of the Russian military invasion of Ukraine (Group and Parent)</p> <p>Refer to Note 1 'General Information and Operational Environment' and Note 2 'Accounting Policies'. On 24 February 2022, Russia commenced a military invasion of Ukraine. This was quickly followed by the enactment of martial law, and the introduction of temporary restrictions that impact, amongst other things, the economic environment and business operations in Ukraine.</p> <p>Management has assessed the impact of the invasion on the operations of the Group and specifically considered the impact on the Group's and Company's ability to continue as a going concern, including in a severe downside scenario. In respect of balances as at 31 December 2021, this is a non-adjusting post-balance sheet event.</p> <p>Given the uncertainties and potential implications on the economy, and hence the Group's and Company's operations, resulting from the invasion, we have assessed this as a key audit matter.</p> | <p>To assess the risk of uncertainty as a result of the invasion and its potential impact on the Group's and Company's financial position and operations, we performed the following:</p> <ul style="list-style-type: none"> ■ Discussed with management and those charged with governance the impacts of the invasion on the Group's and Company's operations; ■ Evaluated management's assessment, including the impact on going concern; ■ Considered whether changes to working practices brought about by the invasion had an adverse impact on the effectiveness of management's business processes; ■ Evaluated the appropriateness of management's disclosures in the Annual Report and Financial Statements. <p>We concur with management's conclusion in respect of the impact of the invasion on the Group's and Company's operations and financial position.</p> <p>Our conclusions and further work performed in respect of going concern are set out separately within the 'Material uncertainty related to going concern (Group)' and 'Conclusions relating to going concern (Company)' sections of this report.</p> |

How we tailored the audit scope

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

The Group is structured as two operating segments on a geographical basis: the UK head office and Ukrainian oil and gas exploration, development and production. The consolidated financial statements are a consolidation of seven legal entities, comprising the Group's operating businesses and centralised functions.

Day-to-day management of the operations of the Group and the Company, including accounting and financial reporting, is undertaken in Kyiv, Ukraine. Accordingly, a significant portion of our audit work was undertaken in Kyiv on our behalf by PwC Ukraine. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group audit team, or by PwC Ukraine, as our component audit team.

We conducted full scope audits of two components out of the Group's seven components which were selected due to their size and risk characteristics. An audit of one or more account balances, classes of transactions or disclosures was performed at a further three components. All of this work was carried out by our component team in Ukraine.

Further specific audit procedures relating to the consolidation, compliance with laws and regulations outside of Ukraine including the audit of UK tax, and procedures relating to the appropriate presentation and disclosure of the Annual Report and Financial Statements were performed directly by us as the Group audit team.

This enabled us to obtain coverage of 100% of consolidated revenue, 98% coverage of consolidated profit before tax and 100% coverage of consolidated total assets of the Group.

Where work was performed by our component team in Ukraine, we determined the level of involvement we needed to have in their work to ensure sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements. We conducted our oversight through regular dialogue via video conferencing, calls and other forms of communication as considered necessary and appropriate in the circumstances throughout the planning, execution, and completion phases of the audit. In addition, we performed a review of PwC Ukraine's audit working papers to satisfy ourselves that the appropriate audit work had been performed. We also attended key meetings virtually with management in Ukraine and our component team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Financial statements – Group | Financial statements – Company |
|--|--|---|
| Overall materiality | US\$1,600,000 (2020: US\$759,000). | US\$1,511,000 (2020: US\$1,372,000). |
| How we determined it | 5% of three-year average (2020: two-year average) profit before tax adjusted for non-recurring items | 1% of total assets |
| Rationale for benchmark applied | Profit before tax is the primary measure used by the shareholders in assessing the performance of the Group and is a generally accepted auditing benchmark. The Group's earnings are heavily influenced by the realised selling price of gas and, despite the relatively stable level of production in the last three years, profit for the current year is significantly higher. Therefore, it was considered to be appropriate to use an average of profit before tax and the three-year average profit before tax (2020: two-year average) was considered to be the most appropriate benchmark. | We believe that total assets is the primary measure used by the shareholders in assessing the performance of the Company, and is a generally accepted auditing benchmark. |

Independent Auditors' Report to the Members of Enwell Energy plc CONTINUED

Report on the audit of the financial statements

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between US\$800,000 and US\$1,511,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to US\$1,200,000 (2020: US\$569,250) for the Group financial statements and US\$1,133,000 (2020: US\$1,029,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount in the middle of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above US\$80,000 (Group audit) (2020: US\$37,950) and US\$75,550 (Company audit) (2020: US\$69,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained the Directors' assessment and conclusions with respect to going concern.
- We discussed the going concern assessment with management and those charged with governance and challenged the key assumptions, estimates and judgements made in the assessment.
- We assessed whether the Russian military invasion of Ukraine would have a significant impact on the company, and in particular on its cash balances.

- We considered whether management's assessment that there was a material uncertainty in respect of the group (refer to the 'Material uncertainty relating to going concern (Group)' section above) impacted on the company's ability to continue as a going concern.

- We considered the appropriateness of the disclosures made in respect of the assessment of going concern for the Company in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the Company financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Company financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our Auditors' Report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the failure to comply with environmental regulations, health and safety regulations and the relevant tax compliance regulations in the jurisdictions in which the Group operates, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component Auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component Auditors included:

- Inquiries of management and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Understanding and evaluating controls designed to prevent and detect irregularities and fraud;

- Assessing significant judgements and estimates in particular those relating to the carrying value of investments in, and loans to, subsidiary undertakings, and the disclosure of these items (and as outlined further in the 'Key audit matters' section of this report).
- Identifying and testing journal entries, using specific risk criteria, including journals with unusual account combinations, journals posted by unexpected users and journals reversed in the subsequent period.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Kevin McGhee

(Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory
Auditors
London

28 June 2022

Financials

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Consolidated Income Statement

for the year ended 31 December 2021

| | Note | 2021 \$000 | 2020 \$000 |
|---|------|---------------|---------------|
| Revenue | 4 | 121,353 | 47,251 |
| Cost of sales | 5 | (47,422) | (31,511) |
| Gross profit | | 73,931 | 15,740 |
| Administrative expenses | 6 | (8,350) | (7,791) |
| Other operating gains, (net) | 9 | 654 | 1,821 |
| Operating profit | | 66,235 | 9,770 |
| Finance income | 10 | 1,394 | – |
| Finance costs | 11 | (752) | (1,418) |
| Net impairment (losses)/gains on financial assets | | (177) | 24 |
| Other losses, (net) | 12 | (108) | (1,856) |
| Profit before taxation | | 66,592 | 6,520 |
| Income tax expense | 13 | (15,473) | (3,332) |
| Profit for the year | | 51,119 | 3,188 |
| Earnings per share (cents) | | | |
| Basic and diluted | 15 | 15.9c | 1.0c |

The Notes set out below on pages 53 to 82 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2021

| | 2021 \$000 | 2020 \$000 |
|--|---------------|-----------------|
| Profit for the year | 51,119 | 3,188 |
| Other comprehensive income/(expense): | | |
| <i>Items that may be subsequently reclassified to profit or loss:</i> | | |
| Equity – foreign currency translation | 1,611 | (15,050) |
| <i>Items that will not be subsequently reclassified to profit or loss:</i> | | |
| Re-measurements of post-employment benefit obligations | 172 | (73) |
| Total other comprehensive income/(expense) | 1,783 | (15,123) |
| Total comprehensive income/(expense) for the year | 52,902 | (11,935) |

Company Statement of Comprehensive Income

for the year ended 31 December 2021

| | Note | 2021 \$000 | 2020 \$000 |
|--|------|---------------|---------------|
| Profit for the year | 14 | 16,330 | 59,454 |
| Total comprehensive income for the year | | 16,330 | 59,454 |

The Notes set out below on pages 53 to 82 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

as at 31 December 2021

| | Note | 2021 \$000 | 2020 \$000 |
|--|------|-----------------|---------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 17 | 87,418 | 65,662 |
| Intangible assets | 18 | 12,340 | 12,232 |
| Right-of-use assets | 19 | 1,008 | 512 |
| Corporation tax receivable | | – | 9 |
| Deferred tax asset | 26 | 361 | 167 |
| | | 101,127 | 78,582 |
| Current assets | | | |
| Inventories | 21 | 1,862 | 1,541 |
| Trade and other receivables | 22 | 13,059 | 4,847 |
| Cash and cash equivalents | 23 | 87,780 | 60,993 |
| Other short-term investments | 23 | 4,762 | – |
| | | 107,463 | 67,381 |
| Total assets | | 208,590 | 145,963 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 24 | (12,306) | (6,641) |
| Lease liabilities | 19 | (455) | (245) |
| Corporation tax payable | | (5,445) | (1,062) |
| | | (18,206) | (7,948) |
| Net current assets | | 89,257 | 59,433 |
| Non-current liabilities | | | |
| Provision for decommissioning | 25 | (5,467) | (6,819) |
| Lease liabilities | 19 | (648) | (371) |
| Defined benefit liability | | (427) | (530) |
| Deferred tax liability | 26 | (5,197) | (2,705) |
| Other non-current liabilities | | (128) | (1,975) |
| | | (11,867) | (12,400) |
| Total liabilities | | (30,073) | (20,348) |
| Net assets | | 178,517 | 125,615 |
| Equity | | | |
| Called up share capital | 27 | 28,115 | 28,115 |
| Share premium account | 16 | – | 555,090 |
| Foreign exchange reserve | 28 | (103,611) | (105,222) |
| Merger reserve | 28 | (3,204) | (3,204) |
| Capital contributions reserve | 28 | 7,477 | 7,477 |
| Retained earnings/(Accumulated losses) | | 249,740 | (356,641) |
| Total equity | | 178,517 | 125,615 |

The Notes set out below on pages 53 to 82 are an integral part of these consolidated financial statements.

The financial statements of Enwell Energy plc, company number 4462555, on pages 45 to 82 were approved by the Board of Directors on 28 June 2022 and signed on its behalf by:

Bruce Burrows
Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2021

| | Called up share capital \$000 | Share premium account \$000 | Merger reserve \$000 | Capital contributions reserve \$000 | Foreign exchange reserve* \$000 | Retained earnings/ (Accumulated losses) \$000 | Total equity \$000 |
|--|--|--------------------------------------|----------------------------|--|--|---|-----------------------|
| As at 1 January 2020 | 28,115 | 555,090 | (3,204) | 7,477 | (90,172) | (359,756) | 137,550 |
| Profit for the year | – | – | – | – | – | 3,188 | 3,188 |
| Other comprehensive expense | | | | | | | |
| – exchange differences | – | – | – | – | (15,050) | – | (15,050) |
| – re-measurements of post-employment benefit obligations | – | – | – | – | – | (73) | (73) |
| Total comprehensive income/(expense) | – | – | – | – | (15,050) | 3,115 | (11,935) |
| As at 31 December 2020 | 28,115 | 555,090 | (3,204) | 7,477 | (105,222) | (356,641) | 125,615 |

| | Called up share capital \$000 | Share premium account \$000 | Merger reserve \$000 | Capital contributions reserve \$000 | Foreign exchange reserve* \$000 | Retained earnings/ (Accumulated losses) \$000 | Total equity \$000 |
|--|--|--------------------------------------|----------------------------|--|--|---|-----------------------|
| As at 1 January 2021 | 28,115 | 555,090 | (3,204) | 7,477 | (105,222) | (356,641) | 125,615 |
| Profit for the year | – | – | – | – | – | 51,119 | 51,119 |
| Other comprehensive income | | | | | | | |
| – exchange differences | – | – | – | – | 1,611 | – | 1,611 |
| – re-measurements of post-employment benefit obligations | – | – | – | – | – | 172 | 172 |
| Total comprehensive income/(expense) | – | – | – | – | 1,611 | 51,291 | 52,902 |
| Cancellation of share premium account (Note 16) | – | (555,090) | – | – | – | 555,090 | – |
| As at 31 December 2021 | 28,115 | – | (3,204) | 7,477 | (103,611) | 249,740 | 178,517 |

* Predominantly as a result of exchange differences on non-monetary assets and liabilities where the subsidiaries' functional currency is not the US Dollar.

The Notes set out below on pages 53 to 82 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2021

| | Note | 2021 \$000 | 2020 \$000 |
|---|------|-----------------|---------------|
| Operating activities | | | |
| Cash generated from operations | 29 | 77,646 | 23,764 |
| Charitable donations | 12 | (76) | (2,077) |
| Income tax paid | | (8,959) | (3,850) |
| Interest received | | 763 | 1,487 |
| Net cash inflow from operating activities | | 69,374 | 19,324 |
| Investing activities | | | |
| Purchase of oil and gas development, production and other property, plant and equipment | | (26,292) | (12,749) |
| Purchase of oil and gas exploration and evaluation assets | | (11,387) | (4,154) |
| Purchase of financial instruments | 23 | (4,762) | – |
| Purchase of oil and gas development, production and other intangible assets | | (539) | (194) |
| Proceeds from return of prepayments for shares | | 250 | 250 |
| Proceeds from sale of property, plant and equipment | | 10 | 4 |
| Net cash outflow from investing activities | | (42,720) | (16,843) |
| Financing activities | | | |
| Payment of principal portion of lease liabilities | | (555) | (543) |
| Net cash outflow from financing activities | | (555) | (543) |
| Net increase in cash and cash equivalents | | 26,099 | 1,938 |
| Cash and cash equivalents at the beginning of the year | | 60,993 | 62,474 |
| ECL* of cash and cash equivalents | | (6) | (6) |
| Effect of foreign exchange rate changes | | 694 | (3,413) |
| Cash and cash equivalents at the end of the year | 23 | 87,780 | 60,993 |

* ECL – Expected credit losses

The Notes set out below on pages 53 to 82 are an integral part of these consolidated financial statements.

Company Balance Sheet

as at 31 December 2021

| | Note | 2021 \$000 | 2020 \$000 |
|--|------|----------------|---------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | | 47 | 52 |
| Investments | 20 | 38,527 | 35,287 |
| Loans to subsidiary undertakings | 20 | 48,899 | 62,828 |
| | | 87,473 | 98,167 |
| Current assets | | | |
| Trade and other receivables | 22 | 299 | 435 |
| Cash and cash equivalents | 23 | 63,299 | 38,619 |
| | | 63,598 | 39,054 |
| Total assets | | 151,071 | 137,221 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Other non-current liabilities | 3 | – | (1,852) |
| | | – | (1,852) |
| Current liabilities | | | |
| Trade and other payables | 3 | (1,798) | (2,426) |
| | | (1,798) | (2,426) |
| Net current assets | | 61,800 | 36,628 |
| Total liabilities | | (1,798) | (4,278) |
| Net assets | | 149,273 | 132,943 |
| Equity | | | |
| Called up share capital | 27 | 28,115 | 28,115 |
| Share premium account | 16 | – | 555,090 |
| Retained earnings/(Accumulated losses) as at 1 January | | (450,262) | (509,716) |
| – profit for the year and total comprehensive income | 14 | 16,330 | 59,454 |
| – cancellation of share premium account | 16 | 555,090 | – |
| Retained earnings/(Accumulated losses) as at 31 December | | 121,158 | (450,262) |
| Total equity | | 149,273 | 132,943 |

The Notes set out below on pages 53 to 82 are an integral part of these consolidated financial statements.

The financial statements of Enwell Energy plc, company number 4462555, on pages 45 to 82 were approved by the Board of Directors on 28 June 2022 and signed on its behalf by:

Bruce Burrows

Finance Director

Company Statement of Changes in Equity

for the year ended 31 December 2021

| | Called up share capital \$000 | Share premium account \$000 | Retained earnings/ (Accumulated losses) \$000 | Total equity \$000 |
|--|-------------------------------------|--------------------------------------|---|-----------------------|
| As at 1 January 2020 | 28,115 | 555,090 | (509,716) | 73,489 |
| Profit for the year and total comprehensive income | – | – | 59,454 | 59,454 |
| As at 31 December 2020 | 28,115 | 555,090 | (450,262) | 132,943 |

| | Called up share capital \$000 | Share premium account \$000 | Retained earnings/ (Accumulated losses) \$000 | Total equity \$000 |
|--|-------------------------------------|--------------------------------------|---|-----------------------|
| As at 1 January 2021 | 28,115 | 555,090 | (450,262) | 132,943 |
| Profit for the year and total comprehensive income | – | – | 16,330 | 16,330 |
| Cancellation of share premium account (Note 16) | – | (555,090) | 555,090 | – |
| As at 31 December 2021 | 28,115 | – | 121,158 | 149,273 |

The Notes set out below on pages 53 to 82 are an integral part of these consolidated financial statements.

Company Cash Flow Statement

for the year ended 31 December 2021

| | Note | 2021 \$000 | 2020 \$000 |
|---|------|----------------|----------------|
| Operating activities | | | |
| Cash used in operations | 29 | (2,820) | (3,528) |
| Taxation paid | | (276) | (61) |
| Interest received | | 1 | 152 |
| Net cash used in operating activities | | (3,095) | (3,437) |
| Investing activities | | | |
| Dividends received from Group companies | | 10,017 | 16 |
| Proceeds from return of prepayments for shares | | 250 | 250 |
| Purchase of subsidiaries | 3 | (2,617) | (4,154) |
| Purchase of property, plant and equipment | | – | (52) |
| Repayment of principal and interest on loans to Group companies | | 32,132 | 4,318 |
| Issue of loans to Group companies | | (12,000) | – |
| Net cash provided by investing activities | | 27,782 | 378 |
| Net increase/(decrease) in cash and cash equivalents | | 24,687 | (3,059) |
| Cash and cash equivalents at beginning of year | | 38,619 | 41,671 |
| Effect of foreign exchange rate changes | | (7) | 7 |
| Cash and cash equivalents at end of year | 23 | 63,299 | 38,619 |

The Notes set out below on pages 53 to 82 are an integral part of these consolidated financial statements.

Notes

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1. General Information and Operational Environment

Enwell Energy plc (the “Company”) and its subsidiaries (the “Group”) is a gas, condensate and LPG production group.

The Company is a public limited company quoted on the AIM Market operated by London Stock Exchange plc 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. The principal activities of the Group and the nature of the Group’s operations are set out above.

As at 31 December 2021 and 2020, the Company’s immediate parent company was Smart Energy (CY) Limited, which is 100% owned by Smart Holding (Cyprus) Limited, which is 100% owned by Mr Vadym Novynskyi. Accordingly, the Company was ultimately controlled by Mr Vadym Novynskyi.

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

Impact of the ongoing war in Ukraine

On 24 February 2022, Russia commenced a military invasion of Ukraine. This was quickly followed by the enactment of martial law by the Ukrainian President’s Decree, approved by the Parliament of Ukraine, and the corresponding introduction of related temporary restrictions that impact, amongst other areas, the economic environment and business operations in Ukraine.

Currently, four months after the initial military attack, fighting continues in and around several major Ukrainian cities, causing very significant numbers of reported military and civilian casualties and significant dislocation of the Ukrainian population. As of the date hereof, the Russian army has occupied territories in the east and south of Ukraine, including the majority of the Kherson, Zaporizhzhia, Luhansk and Donetsk regions. Russian attacks have targeted and destroyed civilian infrastructure over wide areas of Ukraine, including hospitals and residential complexes. The invasion caused, and continues to cause, significant turbulence and disruption to the social and economic environment in Ukraine, with many businesses being forced to suspend their operations. According to a projection published by the International Monetary Fund (“IMF”) in April 2022, Ukrainian GDP may fall 35% in 2022.

On 3 June 2022, the National Bank of Ukraine (“NBU”) increased the key policy interest rate to 25%, which was aimed at suspending price increases and strengthening the Ukrainian Hryvnia exchange rate. The NBU has also introduced temporary restrictions on foreign currency trades and limited the ability to perform cross-border payments for non-critical imports and repayment of debt to foreign creditors, apart from international institutions. The Ukrainian Hryvnia exchange rate with the US Dollar was effectively fixed at UAH29.25:\$1.00 on the foreign exchange market to ensure the stable operation of Ukraine’s financial system. As a result, commercial interbank quotes remain close to the officially imposed NBU exchange rate. Despite the uncertainty and instability in the general situation within Ukraine, the banking system remains relatively stable, with sufficient liquidity even as martial law continues, and banking services are available to both legal entities and individual bank customers.

The Ukrainian Government is taking action to limit the negative effects of the war on the Ukrainian economic environment during the period of martial law and beyond, including but not limited to:

- the Parliament of Ukraine has adopted a temporary easing of the tax regime until the end of martial law, including the suspension of tax audits and has cancelled penalties for violating the tax law;
- gasoline, heavy distillates, liquefied gas, oil and petroleum are subject to VAT at a reduced rate of 7%, and the excise tax rate for the imported fuel group of products’ is set at zero;
- a number of measures were taken to limit prices for energy resources, including prohibiting export of gas, setting a level of electricity price on transactions a day ahead and intraday markets; and
- the Parliament of Ukraine passed a law (№ 7038-d) to increase the subsoil tax rate on natural gas production during martial law. This law introduced a differentiated subsoil tax rate on the production of natural gas depending on sale prices for natural gas.

Additional financial support was received from a number of international institutions, including from the IMF and European Bank for Reconstruction and Development (“EBRD”), to support the economy and the population. Such financial support is critical for Ukraine to continue to service its debts in the foreseeable future, including record high State debt repayments in 2022.

Given the fast-moving nature of the situation in Ukraine and the unpredictability of the outcome, it is impracticable to assess the

full impact of the war on the economic environment.

Gas market developments

On 30 December 2021, the Cabinet of Ministers adopted Resolution № 1433 and Resolution № 1435, according to which all independent gas producers in Ukraine (as identified by a Committee set up by the Ukrainian Government (the “Committee”)) were required to sell up to 20% of their natural gas production for the period until 30 April 2022 at a price set at the cost of sales of the relevant gas producer (based on established accounting rules) for such gas, plus a margin of 24%, plus existing production taxes (the “Regulated Price”). This gas was then to be sold to specified producers of designated socially important food products (as identified by the Committee) at the Regulated Price to reduce the energy costs of such producers during the period through to 30 April 2022. Although the introduction of these measures pre-dated the military conflict in Ukraine, their impact has coincided with the military conflict, but nevertheless, the measures have not had a material financial impact on the Group, given the modest volume of gas sold at Regulated Prices and the reduced production during the applicable period.

On 15 March 2022, the Ukrainian Parliament adopted the Law of Ukraine № 2139-IX “On amendments to the Tax Code of Ukraine and certain legislative acts of Ukraine on the introduction of differentiated rent (subsoil tax) for natural gas production”, which introduced changes to the subsoil production tax rates applicable to natural gas production by modifying the applicable rates based on gas prices, extending the incentive rates for new wells for a further 10 years and making improvements to the regulatory environment. These changes took effect on 1 March 2022, and the legislation includes provisions that these rates will not be increased for 10 years.

The new subsoil production tax rates are as follows:

- a) when gas prices are up to \$150/Mm³, the rate for wells drilled prior to 1 January 2018 (“old wells”) is 14.5% for gas produced from deposits at depths shallower than 5,000 metres and 7% for gas produced from deposits deeper than 5,000 metres, and for wells drilled after 1 January 2018 (“new wells”) is 6% for gas produced from deposits at depths shallower than 5,000 metres and 3% for gas produced from deposits deeper than 5,000 metres;
- b) when gas prices are between \$150/Mm³ and \$400/Mm³, the rate for old wells is 29% for gas produced from deposits at depths shallower than 5,000 metres and 14% for gas produced from deposits

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deeper than 5,000 metres, and for new wells is 12% for gas produced from deposits at depths shallower than 5,000 metres and 6% for gas produced from deposits deeper than 5,000 metres;

- c) when gas prices are more than \$400/Mm³, for the first \$400/Mm³, the rate for old wells is 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, and for new wells is 12% for gas produced from deposits at depths shallower than 5,000 metres and 6% for gas produced from deposits deeper than 5,000 metres, and for the difference between \$400/Mm³ and the actual price, the rate for old wells is 65% for gas produced from deposits at depths shallower than 5,000 metres and 31% for gas produced from deposits deeper than 5,000 metres, and for new wells is 36% for gas produced from deposits at depths shallower than 5,000 metres and 18% for gas produced from deposits deeper than 5,000 metres.

Prior to the changes, the tax rate for old wells was 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, and for new wells was 12% for gas produced from deposits at depths shallower than 5,000 metres and 6% for gas produced from deposits deeper than 5,000 metres. The tax rates applicable to condensate production were unchanged and remain at 31% for condensate produced from deposits shallower than 5,000 metres and 16% for condensate produced from deposits deeper than 5,000 metres, for both old and new wells.

COVID-19 impact

The COVID-19 pandemic had a significant impact on the economic environment in Ukraine and throughout the world. The rapid spread of the COVID-19 coronavirus pandemic, and the restrictions introduced to counteract the pandemic significantly impacted global commodity and financial markets. The overall impact of COVID-19 will largely depend on the duration and extent of the effects of the pandemic on the global and Ukrainian economies. Businesses in Ukraine adapted to operating in new realities, arranging remote work, supply and sale modes of operation. At the date hereof, based on the available information, management believes that the uncertainties attributable to COVID-19 do not represent a key risk factor that may materially affect the liquidity and continuity of the Group's operations.

Overall, the final resolution and the ongoing effects of the military conflict and political and economic situation in Ukraine are difficult to predict, but they may have further severe effects on the Ukrainian economy and the Group's business.

As at 24 June 2022, the official NBU exchange rate of the Ukrainian Hryvnia against the US Dollar was UAH29.25/\$1.00, compared with UAH27.23/\$1.00 as at 31 December 2021.

Further details of risks relating to Ukraine can be found within the Principal Risks section of the Strategic Report.

2. Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group and Company transitioned to UK-adopted International Accounting Standards on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework. The consolidated financial statements of the Group and the financial statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

These consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes effective from 1 January 2021, these policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of financial statements in conformity with UK-adopted International Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

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's Statement and Finance Review. The financial position of the Group, its cash flows and liquidity position are set out in these consolidated financial statements.

On 24 February 2022, Russia commenced a military invasion of Ukraine. This was quickly followed by the enactment of martial law by the Ukrainian President's Decree, approved by the Parliament of Ukraine, and the corresponding introduction of related temporary restrictions that impact the economic environment and business operations in Ukraine.

The production assets of the Group are located in the central and eastern part of the country (Poltava and Kharkiv regions), which are controlled by the Ukrainian Government. Following a brief period of suspension, production and field operations, as well as construction work on upgrades to the gas processing facilities, at the MEX-GOL and SV fields have recommenced. As of the date of approval of these financial statements, no assets of the Group have been damaged, and the Group continues to operate its MEX-GOL, SV and SC assets in the Poltava region, while all production and field operations at the VAS asset located in the Kharkiv region are suspended. At the SC licence area, completion of the drilling of the SC-4 well is planned shortly. No military activities have occurred at the Group's field locations. The Gas Transmission System Operator of Ukraine has maintained complete operational and technological control over the operations of the Ukrainian Gas Transmission System. However, as of the date of approval of these financial statements, the military conflict has had, and continues to have, a material impact on the production and sales levels of the business and execution of the Group's 2022 budget.

The Group has no debt and funds its operations from its own cash resources. Cash and cash equivalents were \$76.5 million as at 24 June 2022, of which \$58.8 million were held outside of Ukraine, in currencies other than the Ukrainian Hryvnia. The Directors maintain a significant level of flexibility to modify the Group's development plans as may be required to preserve cash resources for liquidity management. Absent the potential impact of the military conflict in Ukraine, the Directors are satisfied that the Group and the Company are a going concern and will continue their operations for the foreseeable future.

In assessing the impact of the military conflict on the ability of the Group and the Company to continue as a going concern, the Directors have analysed a number of possible scenarios of economic and military developments and the impact on the expected cash flows of the Group and Company for 2022 and 2023. This includes considering a possible (but in the view of the Directors, highly unlikely) worst case scenario, in which the Group has zero production as a result of possible future military conflict dictating field operations being completely shut-in, and all other non-production-related costs being maintained at current levels with no reduction or mitigating actions as would otherwise be possible. Even in this worst-case scenario, the Directors are satisfied that the Group and the Company have sufficient liquid resources to be able to meet their liabilities as they fall due and to be able to continue as a going concern for the foreseeable future.

In respect of the Group's operations, staff and assets in Ukraine, the potential short and long-term impact of the future development of the military conflict is inherently uncertain. Accordingly, this creates a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern because of the potential impact on its ability to continue its operations for the foreseeable future and realise its assets in the normal course of business. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

The Company is a UK-based investment holding company. The Company had cash and cash equivalents of \$58.8 million as at 24 June 2022, all of which are held outside of Ukraine, in US Dollars, Pounds Sterling and Euros. The Directors are satisfied that the Company is a going concern and will be able to continue its operations for the foreseeable future, and there is no material uncertainty in respect of its ability to do so.

New and amended standards adopted by the Group

The following amended standards became effective from 1 January 2021, but did not have a material impact on the Group's consolidated or Company's financial statements:

- Interest rate benchmark ("IBOR") reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021);
- COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 April 2021.

Impact of standards issued but not yet applied by the Group

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2022 or later, and which the Group has not early adopted.

- a) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the UK Endorsement Board)
- b) IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023)
- c) Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023)
- d) Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022)
- e) Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023)
- f) Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018–2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022)

- g) Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)
- h) Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)
- i) Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021)
- j) Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023)

These new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

Exchange differences on intra-group balances with foreign operation

The Group has certain inter-company monetary balances of which the Company is the beneficial owner. These monetary balances are payable by a subsidiary that is a foreign operation and are eliminated on consolidation.

In the consolidated financial statements, exchange differences arising on such payables because the transaction currency differs from the subsidiary's functional currency are recognised initially in other comprehensive income if the settlement of such payables is continuously deferred and is neither planned nor likely to occur in the foreseeable future.

In such cases, the respective receivables of the Company are regarded as an extension of the Company's net investment in that foreign operation, and the cumulative amount of the abovementioned exchange differences recognised in other comprehensive income is carried forward within the foreign exchange reserve in equity and is reclassified to profit or loss only upon disposal of the foreign operation.

When the subsidiary that is a foreign operation settles its quasi-equity liability due to the Company, but the Company continues to possess the same percentage of the subsidiary, i.e. there has been no change in its proportionate ownership interest, such settlement is not regarded as a disposal or a partial disposal, and therefore cumulative exchange differences are not reclassified.

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The designation of inter-company monetary balances as part of the net investment in a foreign operation is re-assessed when management's expectations and intentions on settlement change due to a change in circumstances.

Where, because of a change in circumstances, a receivable balance, or part thereof, previously designated as a net investment into a foreign operation is intended to be settled, the receivable is de-designated and is no longer regarded as part of the net investment.

In such cases, the exchange differences arising on the subsidiary's payable following de-designation are recognised within finance costs/income in profit or loss, similar to foreign exchange differences arising from financing.

Foreign exchange gains and losses not related to intra-group balances are recognised on a net basis as other gains or losses.

Basis of Consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company (and its subsidiaries) made up to 31 December each year.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Segment reporting

The Group's only class of business activity is oil and gas exploration, development and production. The Group's primary operations are located in Ukraine, with its head office in the United Kingdom. The geographical segments are the basis on which the Group reports its segment information to management. Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors.

Commercial Reserves

Proved and probable oil and gas reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs. Proved reserves are those quantities of petroleum that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from known reservoirs and under defined technical and commercial conditions. Probable reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. The proved and probable reserves conform to the definition approved by the Petroleum Resources Management System.

Oil and Gas Exploration/Evaluation and Development/Production Assets

The Group applies the successful efforts method of accounting for oil and gas assets, having regard to the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources.

Exploration costs are incurred to discover hydrocarbon resources. Evaluation costs are incurred to assess the technical feasibility and commercial viability of the resources found. Exploration, as defined in IFRS 6 Exploration and Evaluation of Mineral Resources, starts when the legal rights to explore have been obtained. Expenditure incurred before obtaining the legal right to explore is generally expensed; an exception to this would be separately acquired intangible assets such as payment for an option to obtain legal rights.

Expenditures incurred in the exploration activities are expensed unless they meet the definition of an asset. The Group recognises an asset when it is probable that economic benefits will flow to the Group as a result of the expenditure. The economic benefits might be available through commercial exploitation of hydrocarbon reserves or sales of exploration findings or further development rights. Exploration and evaluation ("E&E") assets are recognised as either property, plant and equipment or intangible assets, according to their nature, in single field cost centres.

The capitalisation point is the earlier of:

- the point at which the fair value less costs to sell the property can be reliably determined as being higher than the total of the expenses incurred and costs already capitalised (such as licence acquisition costs); and
- an assessment of the property demonstrates that commercially viable reserves are present and hence there are probable future economic benefits from the continued development and production of the resource.

E&E assets are reclassified from Exploration and Evaluation when evaluation procedures have been completed. E&E assets that are not commercially viable are written down. E&E assets for which commercially viable reserves have been identified are reclassified to Development and Production assets. E&E assets are tested for impairment immediately prior to reclassification out of E&E.

Once an E&E asset has been reclassified from E&E, it is subject to the normal IFRS requirements. This includes impairment testing at the cash-generating unit ("CGU") level and depreciation.

Abandonment and Retirement of Individual Items of Property, Plant and Equipment

Normally, no gains or losses shall be recognised if only an individual item of equipment is abandoned or retired or if only a single lease or other part of a group of proved properties constituting the amortisation base is abandoned or retired as long as the remainder of the property or group of

properties constituting the amortisation base continues to produce oil or gas. Instead, the asset being abandoned or retired shall be deemed to be fully amortised, and its costs shall be charged to accumulated depreciation, depletion or amortisation. When the last well on an individual property (if that is the amortisation base) or group of properties (if amortisation is determined on the basis of an aggregation of properties with a common geological structure) ceases to produce and the entire property or group of properties is abandoned, a gain or loss shall be recognised. Occasionally, the partial abandonment or retirement of a proved property or group of proved properties or the abandonment or retirement of wells or related equipment or facilities may result from a catastrophic event or other major abnormality. In those cases, a loss shall be recognised at the time of abandonment or retirement.

Intangible Assets other than Oil and Gas Assets

Intangible assets other than oil and gas assets are stated at cost less accumulated amortisation and any provision for impairment. These assets represent exploration licences. Amortisation is charged so as to write off the cost, less estimated residual value on a straight-line basis of 20–25% per annum.

Depreciation, Depletion and Amortisation

All expenditure carried within each field is amortised from the commencement of commercial production on a unit of production basis, which is the ratio of gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, generally on a field by field basis. In certain circumstances, fields within a single development area may be combined for depletion purposes. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs necessary to bring the reserves into production.

Impairment

At each balance sheet date, the Group reviews the carrying amount of oil and gas development and production assets to determine whether there is any indication that those assets have suffered an impairment loss. This includes exploration and appraisal costs capitalised which are assessed for impairment in accordance with IFRS 6. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

For oil and gas development and production assets, the recoverable amount is the greater of fair value less costs to dispose and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an expected weighted average cost of capital. 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. Impairment losses are recognised as an expense immediately. The valuation method used for determination of fair value less cost of disposal is based on unobservable market data, which is within Level 3 of the fair value hierarchy.

Should an impairment loss subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Decommissioning Provision

Where a material liability for the removal of existing production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. The cost of the relevant property, plant and equipment is increased with an amount equivalent to the provision and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset. The unwinding of the discount on the decommissioning provision is included within finance costs.

Property, Plant and Equipment other than Oil and Gas Assets

Property, plant and equipment other than oil and gas assets (included in Other fixed assets in Note 17) are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write off the cost of assets on a straight-line basis over their useful lives as follows:

| | Useful lives in years |
|-----------------------------|-----------------------|
| Buildings and constructions | 10 to 20 years |
| Machinery and equipment | 2 to 5 years |
| Vehicles | 5 years |
| Office and other equipment | 4 to 12 years |

Spare parts and equipment purchased with the intention to be used in future capital investment projects are recognised as oil and gas development and production assets within property, plant and equipment.

Right-of-use assets

The Group leases various offices, equipment, wells and land. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets arising from a lease are initially measured on a present value basis.

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

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

| | Useful lives in years |
|-----------------------------|-----------------------|
| Land | 40 to 50 years |
| Wells | 10 to 20 years |
| Properties: | |
| Buildings and constructions | 10 to 20 years |
| Machinery and equipment | 2 to 5 years |
| Vehicles | 5 years |
| Office and other equipment | 4 to 12 years |

Inventories

Inventories typically consist of materials, spare parts and hydrocarbons, and are stated at the lower of cost and net realisable value. Cost of finished goods is determined on the weighted average bases. Cost of other than finished goods inventory is determined on the first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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Revenue Recognition

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised by the amount of the transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of indirect taxes and excise duties.

Sales of gas, condensate and LPG are recognised when control of the goods have transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group normally uses standardised contracts for the sale of gas, condensate and LPG, which define the point of control transfer. The price and quantity of each sale transaction are indicated in the specifications to the sales contracts.

The control over gas is transferred to a customer when the respective act of acceptance is signed by the parties to a contract upon delivery of gas to the point of sale specified in the contract, normally being a certain point in the Ukrainian gas transportation system. Acts of acceptance of gas are signed and the respective revenues are recognised on a monthly basis.

The control over condensate and LPG is transferred to a customer when the respective waybill is signed by the parties to a contract upon shipment of goods at the point of sale specified in the contract, which is normally the Group's production site.

Foreign Currencies

The Group's consolidated financial statements and those of the Company are presented in US Dollars. The functional currency of the subsidiaries that operate in Ukraine is Ukrainian Hryvnia. The remaining entities have US Dollars as their functional currency.

The functional currency of individual companies is determined by the primary economic environment in which the entity operates, normally the one in which it primarily generates and expends cash. In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items, which are measured in terms of historical cost in a foreign currency, are not retranslated. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on balances, which are considered long-term investments where the changes in fair value are recognised directly in other comprehensive income.

On consolidation, the assets and liabilities of the Group's subsidiaries, which do not use US Dollars as their functional currency, are translated into US Dollars as follows:

- assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;
- income and expenses for each Income Statement are translated at average monthly exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

The principal rates of exchange used for translating foreign currency balances as at 31 December 2021 were \$1:UAH27.3 (2020: \$1:UAH28.3); \$1:£0.741 (2020: \$1:£ 0.736); \$1:€0.883 (2020: \$1:€0.814); and the average rates for the year were \$1:UAH27.3 (2020: \$1:UAH27.0); \$1:£0.727 (2020: \$1:£ 0.779); and \$1:€0.845 (2020: \$1:€0.876).

None of the Group's operations are considered to use the currency of a hyperinflationary economy, however, this is kept under review.

Pensions

The Group contributes to a local government pension scheme in Ukraine and defined benefit plans. The Group has no further payment obligations towards the local government pension scheme once the contributions have been paid.

Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group companies participate in a mandatory Ukrainian State-defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. The early pension benefit (in the form of a monthly annuity) is payable by employers only until the employee has reached the statutory retirement age. The pension scheme is based on a benefit formula which depends on each individual member's average salary, his/her total length of past service and total length of past service at specific types of workplaces ("list II" category).

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. Since Ukraine has no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in the Income Statement within the Cost of Sales in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements. Past-service costs are recognised immediately in the Income Statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the Income Statement within the Cost of Sales.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Taxation

The tax expense represents the sum of the current tax and deferred tax.

Current tax, including UK corporation and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

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

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

Other taxes, which include recoverable value added tax, excise tax and custom duties represent the amounts receivable or payable to local tax authorities in the countries where the Group operates.

Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers; or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis for different entities of the Group and disclosed separately as an asset and a liability. Where provision has been made for expected credit losses ("ECL") of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Financial Instruments

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the Group's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Group's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the Group's key management personnel; and (c) the market risks, including duration of the Group's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities are substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities; (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Fair value is the amount at which the financial instrument was recognised at initial recognition, while amortised cost ("AC") is the amount at which the financial instrument was subsequently measured after the initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for ECL. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest

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rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at fair value through profit or loss ("FVTPL") are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at fair value through other comprehensive income ("FVOCI"), resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio; and (ii) the cash flow characteristics of the asset. The Group's financial assets include cash and cash equivalents, trade and other receivables, loans to subsidiary undertakings, all of which are classified as AC in accordance with IFRS 9.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows"); or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include past experience on how the cash flows for the respective assets were collected.

The Group's business model for financial assets is to collect the contractual cash flows from the assets ("hold to collect contractual cash flows").

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising for contractual assets. The Group measures ECL and recognises net impairment losses on financial and contractual assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes; (ii) time value of money; and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contractual assets are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position.

The Group applies a simplified approach for impairment of cash and cash equivalents, other short-term investments and trade and other receivables, by recognising lifetime expected credit losses based on past default experience and credit profiles, adjusted as appropriate for current observable data. For other financial assets the Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that

are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire; or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement, whilst (i) also transferring substantially all the risks and rewards of ownership of the assets; or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Financial assets – modification. If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Company derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners. If the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition; and (ii) financial guarantee contracts and loan commitments. The Group's financial liabilities include trade and other payables, lease liabilities, all of which are classified as AC in accordance with IFRS 9.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Trade Receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less expected credit losses.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Investments in subsidiaries

Investments made by the Company in its subsidiaries are stated at cost in the Company's financial statements and reviewed for impairment if there are indications that the carrying value may not be recoverable.

Loans issued to subsidiaries

Loans issued by the Company to its subsidiaries are initially recognised in the Company's financial statements at fair value and are subsequently carried at amortised cost using the effective interest method, less credit loss allowance. Net change in credit losses and foreign exchange differences on loans issued are recognised in the Company's statement of profit or loss in the period when incurred.

Trade and Other Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Lease liabilities

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk; and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

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The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

Equity Instruments

Ordinary shares are classified as equity. Equity instruments issued by the Company and the Group are recorded at the proceeds received, net of direct issue costs. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks and other short-term highly liquid investments which are readily convertible to a known amount of cash with insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Interest income that relates to cash and cash equivalents on current and deposit accounts is disclosed within operating cash flow.

Other short-term investments

Other short-term investments include current accounts and deposits held at banks, which do not meet the cash and cash equivalents definition. Current accounts and deposits held at banks, which do not meet the cash and cash equivalents definition are measured initially at fair value and subsequently carried at amortised cost using the effective interest method. Interest received on other short-term investments is disclosed within operating cash flow.

Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the asset. Interest income on current bank accounts and on demand deposits or term deposits with the maturity less than three months recognised as part of cash and cash equivalents is recognised as other operating income. Interest income on term deposits other than those classified as cash and cash equivalents is recognised as finance income.

3. Significant Accounting Judgements and Estimates

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements

Acquisition of LLC Arkona Gas-Energy

The Group acquired control of LLC Arkona Gas-Energy ("Arkona") on 24 March 2020. This acquisition required a determination to be made as to whether the acquisition should be treated as a business or asset acquisition. Following such determination, the transaction has been treated as an asset acquisition as there were no employees or production operations acquired. In applying the concentration test under amended IFRS 3 Business Combinations, the fair value of the acquired Svystunivsko-Chervonolutskyi licence ("SC Licence") comprises the majority amount (more than 90%) of the consideration. The SC Licence is classified as an exploration and evaluation intangible asset at the acquisition date. The Group believes no impairment indicators exist at the reporting date, and note the following:

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

The following table provides the allocation of the fair value of the consideration to Arkona's assets and liabilities at their relative fair values at the date of acquisition:

| | \$000 |
|---|--------------|
| Property, plant and equipment | 88 |
| Trade and other receivables | 35 |
| Trade and other payables | (291) |
| Net liabilities – at the acquisition date, excluding licence | (168) |
| Gross value of consideration (1st, 2nd and 3rd tranches) | 8,469 |
| Discounting effect | (306) |
| Fair value of consideration (1st, 2nd and 3rd tranches) | 8,163 |
| Fair value of licence at the acquisition date | 8,331 |

Under the terms of the sale and purchase agreement for Arkona, the total consideration payable is \$8,630,000, with payment divided into three tranches. The first tranche of \$4,315,000 was paid on 24 March 2020 upon completion of the acquisition of 100% of the issued share capital of Arkona.

In March 2021, the Group paid the second tranche of the consideration (net of an indemnity liability owned to the Group) of \$2,078,000.

In September 2021, the Group made an early payment of 25% of the third tranche of the consideration totalling \$539,000.

The remaining balance of the third tranche of the consideration totalling \$1,618,125 is subject to satisfaction of certain conditions, including the favourable resolution of legal proceedings brought by PJSC Ukrnafta against Arkona relating to the SC Licence, the absence of any further legal claims or contractual, warranty or indemnity claims, and the expiration of a further period of time. The total consideration comprising the three tranches estimated at the date of acquisition amounts to \$8,163,000. The outstanding amount is reflected in trade and other payables.

Estimates

Depreciation of Oil and Gas 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 proved 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 estimates 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. The latest development plan and therefore the inputs used to determine the depreciation charge for the MEX-GOL, SV and VAS fields continue until the end of the economic life of the fields, which is assessed to be 2038, 2042 and 2028 respectively, based on the assessment contained in the DeGolyer & MacNaughton reserves report for these fields. The licences for the MEX-GOL and SV fields have recently been extended until 2044. Were the estimated reserves at the beginning of the year to differ by 10% from previous assumptions, the impact on depreciation for the year ended 31 December 2021 would be to increase it by \$1,195,000 or decrease it by \$975,000 (2020: increase by \$1,165,000 or decrease by \$953,000).

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 as at 31 December 2021 was 6.29% (31 December 2020: 3.70%). 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. Increase of the discount rate applied is caused by the growth of the Ukrainian risk-free rate.

The change in estimate applied to calculate the provision as at 31 December 2021 resulted from the revision of the estimated costs of decommissioning (increase of \$398,000 in provision), an increase in the discount rate applied (decrease of \$2,188,000 in provision) and change of the estimated economic life of the SV-10 well (decrease of \$259,000 in provision). 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 (Note 25).

Net Carrying Amount of Inter-Company Loans Receivable and Investments by the Company into a Subsidiary

The Company has certain inter-company loans receivable from a subsidiary, which are eliminated on consolidation. For the purpose of the Company's financial statements, these receivable balances are carried at amortised cost using the effective interest method, less credit loss allowance. Measurement of lifetime expected credit losses on inter-company loans is a significant judgment that involves models and data inputs including forward-looking information, current conditions and forecasts of future conditions impacting the estimated future cash flows that are expected to be recovered, time value of money, etc. In previous years, significant impairment charges were recorded against the carrying amount of the loans issued to subsidiaries as the present value of estimated future cash flows discounted at the original effective interest rate was less than the carrying amount of the loans, and the resulting impairment losses were recognised in profit or loss in the Company's financial statements.

For the purpose of assessment of the credit loss allowance as at 31 December 2021, the Company considered all reasonable and supportable forward-looking information available as at that date without undue cost and effort, which includes a range of factors, such as estimated future net cash flows to be generated by the subsidiaries operating in Ukraine and cash flow management. All these factors have a significant impact on the amounts subject to repayment on the loans and investments. The estimated future discounted cash flows generated by the subsidiaries operating in Ukraine are considered as a primary source of repayment on the loans and investments. As at 31 December 2021, the present value of future net cash flows to be generated by the subsidiaries operating in Ukraine during 2022–2026, adjusted for the subsidiaries' working capital as at 31 December 2021 and estimated amounts reserved by the Group for investment projects in the time horizon was calculated.

The key assumptions used in the discounted cash flow model are:

- commodity prices – the model assumes gas prices of \$725/Mm³ in 2022, decreasing to \$514/Mm³ in 2023, \$370/Mm³ in 2024 and \$250/Mm³ in subsequent years;
- discount rate applied is 12.6%, determined in real terms;
- production levels and reserves at the beginning of year 2022 at the MEX-GOL and SV fields of 44.7 MMboe, at the VAS field of 2.4 MMboe and at the SC licence area of 12.6 MMboe;
- production taxes applicable to gas production at variable rates under relevant legislation;
- capital expenditure allowance for maintenance and development of: MEX-GOL and SV fields at the level of \$750,000 per year, VAS field at the level of \$250,000 per year and SC licence area at the level of \$100,000 per year;
- future capital expenditures for a period of five years assumed to be: for the MEX-GOL and SV fields at the level of \$181,700,000, VAS field at the level of \$15,500,000 and SC licence area at the level of \$65,900,000;
- future capital expenditures until the end of field life assumed to be: for the MEX-GOL and SV fields at the level of \$253,200,000, VAS field at the level of \$16,500,000 and SC licence area at the level of \$97,500,000;

- life of field for the purpose of the assessment of loans – cash flows were taken for a period of five years as management believes there is no reasonably available information to build reliable expectations and demonstrate the ability to settle the loans over a longer perspective;
- life of field for the purpose of the assessment of investments – cash flows were taken for a period of the full economic life of the respective CGUs.

The increase in the net present value of future net cash flows as at 31 December 2021 in comparison with 31 December 2020 was affected by the increase in gas prices forecast.

The resulting amount, net of the carrying value of the Company's investments in subsidiaries and loans, was compared to the discounted cash flows and net financial assets of the subsidiaries as at 31 December 2021. As such, the Company has recorded \$10,912,000 of income, being the net change in the expected credit losses for loans issued to and investments in subsidiaries in the Company's statement of profit or loss for the year ended 31 December 2021. The set off of the accumulated impairment of \$3,322,000 was due to the disposal of the fully impaired investment in Regal Petroleum (Jersey) Limited (Note 20).

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes.

4. Segmental Information

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

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

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| | Ukraine 2021 \$000 | United Kingdom 2021 \$000 | Total 2021 \$000 |
|--|--------------------------|------------------------------------|------------------------|
| Revenue | | | |
| Gas sales | 95,813 | – | 95,813 |
| Condensate sales | 19,260 | – | 19,260 |
| Liquefied Petroleum Gas sales | 6,280 | – | 6,280 |
| Total revenue | 121,353 | – | 121,353 |
| Segment result | 81,025 | (2,832) | 78,193 |
| Depreciation and amortisation of non-current assets | (11,958) | – | (11,958) |
| Operating profit | | | 66,235 |
| Segment assets | 144,941 | 63,649 | 208,590 |
| Capital additions* | 32,577 | – | 32,577 |

*Comprises additions to property, plant and equipment (Note 17)

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. Revenue is recognised at a point in time.

During 2021, the Group was selling all of its gas production to its related party, LLC Smart Energy ("Smart Energy"). Smart Energy has oil and gas operations in Ukraine and is part of the PJSC Smart-Holding Group, which is ultimately controlled by Mr Vadym Novynskyi, who through an indirect 82.65% majority shareholding, ultimately controls the Group. This arrangement came about in 2017 as a consequence of the Ukrainian Government introducing a number of new provisions into the Ukrainian Tax Code over the previous two years, including transfer pricing regulations for companies operating in Ukraine. The introduction of the new regulations has meant that there is an increased regulatory burden on affected companies in Ukraine who must prepare and submit reporting information to the Ukrainian Tax Authorities. Due to the corporate structure of the Group, a substantial proportion of its gas production is produced by a non-Ukrainian subsidiary of the Group, which operates in Ukraine as a branch, or representative office as it is classified in Ukraine. Under the current tax regulations, this places additional regulatory obligations on each of the Group's potential customers who may be less inclined to purchase the Group's gas and/or may seek discounts on sales prices. As a result of discussions between the Company and Smart Energy, Smart Energy agreed to purchase all of the Group's gas production and to assume responsibility for the regulatory obligations under the Ukrainian tax regulations. Furthermore, Smart Energy has agreed to combine the Group's gas production with its own gas production, and to sell such gas as combined volumes, which is intended to result in higher sales prices due to the larger sales volumes. At the commencement of this sales arrangement, in order to cover Smart Energy's sales, administration and regulatory compliance costs, the Group sold its gas to Smart Energy at a discount of 0.5% to the gas sales prices achieved by Smart Energy, who sold the combined volumes in line with market prices. Due to changes in the regulatory regime in Ukraine, which has increased the burden of administration and regulatory compliance obligations involved in the sale of gas, and in order to ensure that the Group is compliant with current transfer pricing regulations in Ukraine, the Group and Smart Energy agreed in 2019 to increase the discount on the price at which the Group sells its gas to Smart Energy from 0.5% to 2%. The terms of sale for the Group's gas to Smart Energy are (i) for 35% of the monthly volume of gas by the 15th of the month following the month of delivery, and (ii) payment of the remaining balance by the end of that month.

| | Ukraine 2020 \$000 | United Kingdom 2020 \$000 | Total 2020 \$000 |
|--|--------------------------|------------------------------------|------------------------|
| Revenue | | | |
| Gas sales | 32,309 | – | 32,309 |
| Condensate sales | 11,418 | – | 11,418 |
| Liquefied Petroleum Gas sales | 3,524 | – | 3,524 |
| Total revenue | 47,251 | – | 47,251 |
| Segment result | 25,473 | (3,053) | 22,420 |
| Depreciation and amortisation of non-current assets | (12,650) | – | (12,650) |
| Operating profit | | | 9,770 |
| Segment assets | 106,587 | 39,376 | 145,963 |
| Capital additions* | 18,167 | – | 18,167 |

*Comprises additions to property, plant and equipment (Note 17)

5. Cost of Sales

| | 2021 \$000 | 2020 \$000 |
|---|---------------|---------------|
| Production taxes | 19,926 | 9,361 |
| Depreciation of property, plant and equipment | 10,669 | 11,546 |
| Rent expenses | 8,811 | 3,151 |
| Staff costs (Note 8) | 2,886 | 3,202 |
| Cost of inventories recognised as an expense | 1,708 | 1,227 |
| Transmission tariff for Ukrainian gas system | 880 | 824 |
| Amortisation of mineral reserves | 482 | 488 |
| Other expenses | 2,060 | 1,712 |
| | 47,422 | 31,511 |

The increase in production taxes and rent expenses in 2021 is a function of those charges being price-linked, with hydrocarbon prices having risen significantly during the year. A transmission tariff for use of the Ukrainian gas transit system of UAH101.93/Mm³ of gas was applicable to the Group (2020: UAH101.93/Mm³).

6. Administrative Expenses

| | 2021 \$000 | 2020 \$000 |
|---|---------------|---------------|
| Staff costs (Note 8) | 5,019 | 4,521 |
| Consultancy fees | 923 | 1,271 |
| Depreciation of other fixed assets | 572 | 456 |
| Auditors' remuneration | 352 | 394 |
| Amortisation of other intangible assets | 235 | 160 |
| Rent expenses | 160 | 154 |
| Other expenses | 1,089 | 835 |
| | 8,350 | 7,791 |

| | 2021 \$000 | 2020 \$000 |
|--|---------------|---------------|
| Audit of the Company and subsidiaries | 141 | 176 |
| Audit of subsidiaries in Ukraine | 124 | 123 |
| Audit related assurances services – interim review | 48 | 47 |
| Total assurance services | 313 | 346 |
| Tax compliance services | 26 | 3 |
| Tax advisory services | 13 | 45 |
| Total non-audit services | 39 | 48 |
| Total audit and other services | 352 | 394 |

The amounts disclosed above were paid to PricewaterhouseCoopers LLP in the UK and Ukraine, with the exception of \$7,000 paid to another audit firm in respect of the audit of a subsidiary in Ukraine (2020: \$47,000 in respect of the audit of a subsidiary in Ukraine and tax advisory services).

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7. Remuneration of Directors

| | 2021 \$000 | 2020 \$000 |
|-----------------------|---------------|---------------|
| Directors' emoluments | 1,115 | 1,026 |

The emoluments of the individual Directors were as follows:

| | Total emoluments 2021 \$000 | Total emoluments 2020 \$000 |
|---------------------------------|--------------------------------------|--------------------------------------|
| Executive Directors: | | |
| Sergii Glazunov | 307 | 370 |
| Bruce Burrows | 484 | 354 |
| Non-Executive Directors: | | |
| Chris Hopkinson | 138 | 128 |
| Alexey Pertin | 62 | 58 |
| Yuliia Kirianova | 62 | 58 |
| Dmitry Sazonenko | 62 | 58 |
| | 1,115 | 1,026 |

The emoluments include base salary, bonuses and fees. According to the Register of Directors' Interests, no rights to subscribe for shares in or debentures of any Group companies were granted to any of the Directors or their immediate families during the financial year, and there were no outstanding options to Directors.

8. Staff Numbers and Costs

The average monthly number of employees during the year (including Executive Directors) and the aggregate staff costs of such employees were as follows:

| | Number of employees | |
|--------------------------|---------------------|------|
| Group | 2021 | 2020 |
| Management / operational | 171 | 166 |
| Administrative support | 92 | 93 |
| | 263 | 259 |

The prior year comparative numbers of employees were amended to conform to the current year presentation. The number of employees includes full-time and part-time employees.

| | 2021 \$000 | 2020 \$000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 6,785 | 6,664 |
| Other pension costs | 1,007 | 953 |
| Social security costs | 113 | 106 |
| | 7,905 | 7,723 |

9. Other Operating Gains, (net)

| | 2021 \$000 | 2020 \$000 |
|--|---------------|---------------|
| Interest income on cash and cash equivalents | 763 | 1,421 |
| Contractor penalties applied | 81 | – |
| Gain on sales of current assets | 16 | 26 |
| Other operating (loss)/income, (net) | (206) | 374 |
| | 654 | 1,821 |

The prior year comparative costs were amended to conform to the current year presentation.

10. Finance Income

During 2021, the Group recognised foreign exchange gains less losses of \$1,394,000 (2020: \$nil). The net exposure in the previous year was recognised as finance costs (Note 11).

11. Finance Costs

| | 2021 \$000 | 2020 \$000 |
|--|---------------|---------------|
| Unwinding of discount on financial liabilities | 333 | 27 |
| Unwinding of discount on provision for decommissioning (Note 25) | 250 | 234 |
| Interest expense on lease liabilities | 169 | 126 |
| Foreign exchange losses less gains | – | 1,031 |
| | 752 | 1,418 |

12. Other Losses, (net)

| | 2021 \$000 | 2020 \$000 |
|---------------------------------|---------------|---------------|
| Charitable donations | 76 | 2,077 |
| Foreign exchange gains/(losses) | 53 | (340) |
| Other (gains)/losses, (net) | (21) | 119 |
| | 108 | 1,856 |

Charitable donations for the year ended 31 December 2021 comprise contributions to the development of social infrastructure of local communities (2020: charitable donations comprised the supply of medical equipment and COVID-19 testing equipment to Ukrainian authorities and charitable foundations).

13. Income Tax Expense

a) Income tax expense and (benefit):

| | 2021 \$000 | 2020 \$000 |
|-------------------------------|---------------|---------------|
| <i>Current tax</i> | | |
| UK – current year | 165 | 227 |
| UK – prior year | 10 | 328 |
| Overseas – current year | 13,130 | 2,770 |
| Overseas – prior year | – | (329) |
| <i>Deferred tax (Note 26)</i> | | |
| UK – current year | 2,367 | 640 |
| Overseas – current year | (199) | (304) |
| Income tax expense | 15,473 | 3,332 |

b) Factors affecting tax charge for the year:

The tax assessed for the year is different from the corporation tax in the UK of 19.00%. The expense for the year can be reconciled to the profit as per the Income Statement as follows:

| | 2021 \$000 | 2020 \$000 |
|--|---------------|---------------|
| Profit before taxation | 66,592 | 6,520 |
| Tax charge at UK tax rate of 19.00% (2020: 19.00%) | 12,652 | 1,239 |
| Tax effects of: | | |
| Lower foreign corporate tax rates in Ukraine (18.00%) (2020: 18.00%) | (685) | (95) |
| Change in UK tax rate from 19% to 25% starting from 1 April 2023 | 1,168 | – |
| Disallowed expenses and non-taxable income | 12,038 | 22,648 |
| Previously unrecognised tax losses used to reduce income tax expense | (9,875) | (21,015) |
| Adjustments in respect of prior periods | 175 | 555 |
| Total tax expense for the year | 15,473 | 3,332 |

The tax effect of disallowed expenses and non-taxable income are mainly represented by foreign exchange differences of Regal Petroleum Corporation (Ukraine) Limited and the net change in credit loss allowance for loans issued to subsidiaries and shares in subsidiary undertakings.

The tax effect of losses not recognised as deferred tax assets are mainly represented by accumulated losses of Regal Petroleum Corporation (Ukraine) Limited.

14. Profit for the Year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Income Statement in these financial statements. The Parent Company profit after tax was \$16,330,000 for the year ended 31 December 2021 (2020: profit after tax \$59,454,000).

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15. Earnings per Share

The calculation of basic earnings per ordinary share has been based on the profit for the year and 320,637,836 (2020: 320,637,836) ordinary shares, being the weighted average number of shares in issue for the year. There are no dilutive instruments.

16. Reduction of Capital

On 25 February 2021, the Company completed a reduction of its share capital through the cancellation of its entire share premium account, thereby creating distributable reserves, which potentially enables the Company to make distributions to its shareholders in the future, subject to the Company's financial performance. However, the Company is not indicating any commitment, and does not have any current intention, to make any distributions to shareholders.

17. Property, Plant and Equipment

| Group | 2021 | | | | 2020 | | | |
|--|---|---|--------------------------|---------------|---|---|--------------------------|---------------|
| | Oil and gas development and production assets Ukraine \$000 | Oil and gas exploration and evaluation assets \$000 | Other fixed assets \$000 | Total \$000 | Oil and gas development and production assets Ukraine \$000 | Oil and gas exploration and evaluation assets \$000 | Other fixed assets \$000 | Total \$000 |
| Cost | | | | | | | | |
| At the beginning of the year | 135,966 | 2,362 | 2,217 | 140,545 | 143,127 | 2,571 | 2,103 | 147,801 |
| Additions | 24,289 | 7,763 | 524 | 32,576 | 17,241 | 213 | 713 | 18,167 |
| Change in decommissioning provision | (1,921) | 70 | – | (1,851) | 372 | – | – | 372 |
| Disposals | (62) | – | (187) | (249) | (443) | – | (73) | (516) |
| Exchange differences | 4,898 | (85) | 77 | 4,890 | (24,331) | (422) | (526) | (25,279) |
| At the end of the year | 163,170 | 10,110 | 2,631 | 175,911 | 135,966 | 2,362 | 2,217 | 140,545 |
| Accumulated depreciation and impairment | | | | | | | | |
| At the beginning of the year | 73,816 | – | 1,067 | 74,883 | 76,802 | – | 947 | 77,749 |
| Charge for year | 10,544 | – | 343 | 10,887 | 10,450 | – | 319 | 10,769 |
| Disposals | (25) | – | (28) | (53) | (327) | – | (30) | (357) |
| Exchange differences | 2,735 | – | 41 | 2,776 | (13,109) | – | (169) | (13,278) |
| At the end of the year | 87,070 | – | 1,423 | 88,493 | 73,816 | – | 1,067 | 74,883 |
| Net book value at the beginning of the year | 62,150 | 2,362 | 1,150 | 65,662 | 66,325 | 2,571 | 1,156 | 70,052 |
| Net book value at the end of the year | 76,100 | 10,110 | 1,208 | 87,418 | 62,150 | 2,362 | 1,150 | 65,662 |

MEX-GOL, SV and VAS gas and condensate fields

In accordance with the Group's accounting policies, the oil and gas development and producing assets are tested for impairment at each balance sheet date if impairment indicators exist. As at 31 December 2021, no impairment indicators were identified by the Group, and therefore no impairment test was performed for the MEX-GOL, SV and VAS gas and condensate fields.

18. Intangible Assets

| Group | 2021 | | | | 2020 | | | |
|--|---------------------------------------|---|--|----------------|---------------------------------------|---|--|----------------|
| | Mineral reserve rights \$000 | Exploration and evaluation intangible assets \$000 | Other intangible assets \$000 | Total \$000 | Mineral reserve rights \$000 | Exploration and evaluation intangible assets \$000 | Other intangible assets \$000 | Total \$000 |
| Cost | | | | | | | | |
| At the beginning of the year | 6,570 | 8,286 | 616 | 15,472 | 7,843 | – | 572 | 8,415 |
| Additions | – | 143 | 324 | 467 | – | 8,331 | 224 | 8,555 |
| Disposals | – | (80) | (212) | (292) | – | – | (85) | (85) |
| Exchange differences | 240 | 302 | 24 | 566 | (1,273) | (45) | (95) | (1,413) |
| At the end of the year | 6,810 | 8,651 | 752 | 16,213 | 6,570 | 8,286 | 616 | 15,472 |
| Accumulated amortisation | | | | | | | | |
| At the beginning of the year | 2,855 | – | 385 | 3,240 | 2,851 | – | 367 | 3,218 |
| Charge for year | 482 | – | 239 | 721 | 488 | – | 166 | 654 |
| Disposals | – | – | (212) | (212) | – | – | (85) | (85) |
| Exchange differences | 102 | – | 22 | 124 | (484) | – | (63) | (547) |
| At the end of the year | 3,439 | – | 434 | 3,873 | 2,855 | – | 385 | 3,240 |
| Net book value at the beginning of the year | 3,715 | 8,286 | 231 | 12,232 | 4,992 | – | 205 | 5,197 |
| Net book value at the end of the year | 3,371 | 8,651 | 318 | 12,340 | 3,715 | 8,286 | 231 | 12,232 |

Intangible assets consist mainly of the hydrocarbon production licence relating to the VAS field which is held by one of the Group's subsidiaries, LLC Prom-Enerho Produkt, and a hydrocarbon exploration licence relating to the Svystunivsko-Chervonolutskyi ("SC") area which is held by LLC Arkona Gas-Energy. The Group amortises the hydrocarbon production licence relating to the VAS field using the straight-line method over the term of the economic life of the VAS field until 2028. The hydrocarbon exploration licence relating to the SC area is not amortised due to it 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 if impairment indicators exist. As at 31 December 2021, no impairment indicators were identified.

19. Leases

This note provides information for leases where the Group is a lessee.

Amount recognised in the balance sheet:

| | 2021 \$000 | 2020 \$000 |
|----------------------------|---------------|---------------|
| Right-of-use assets | | |
| Properties | 627 | 108 |
| Land | 242 | 236 |
| Wells | 139 | 168 |
| | 1,008 | 512 |
| | | |
| | 2021 \$000 | 2020 \$000 |
| Lease liabilities | | |
| Current | 455 | 245 |
| Non-current | 648 | 371 |
| | 1,103 | 616 |

After modification additions to the right-of-use assets during the 2021 financial year were \$820,000 (2020: \$56,000).

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Amounts recognised in the statement of profit or loss:

| | 2021 \$000 | 2020 \$000 |
|---|---------------|---------------|
| Depreciation charge | | |
| Properties | (311) | (308) |
| Land | (15) | (15) |
| Wells | (34) | (35) |
| | (360) | (358) |
| Interest expense (included in finance cost) | (169) | (126) |
| Expense relating to short-term leases (included in cost of sales and administrative expenses) | (142) | (139) |
| Expense relating to variable lease payments not included in lease liabilities (included in cost of sales) | (8,765) | (3,101) |
| Expense relating to lease payments for land under wells not included in lease liabilities (included in cost of sales) | (64) | (71) |

The comparative expense relating to lease payments for land under wells not included in lease liabilities was amended to conform to the current year presentation.

The total cash outflow for leases in 2021 was \$10,217,000 (2020: \$3,456,000).

20. Investments and Loans to Subsidiary Undertakings

| Company | Shares in subsidiary undertakings \$000 | Loans to subsidiary undertakings \$000 | Total \$000 |
|--|--|---|----------------|
| As at 1 January 2020 | 17,279 | 14,181 | 31,460 |
| Additions including accrued interest | 8,163 | 4,336 | 12,499 |
| Transfers | 39,987 | (39,987) | – |
| Repayment of interest and loans | – | (4,318) | (4,318) |
| (Impairment)/reversal of impairment | (30,142) | 87,264 | 57,122 |
| Exchange differences | – | 1,352 | 1,352 |
| As at 31 December 2020 | 35,287 | 62,828 | 98,115 |
| Additions including accrued interest | – | 15,447 | 15,447 |
| Disposal of shares in subsidiary | (3,322) | – | (3,322) |
| Accumulated impairment on disposal of shares in subsidiary | 3,322 | – | 3,322 |
| Repayment of interest and loans | – | (32,132) | (32,132) |
| Reversal of impairment | 3,240 | 7,672 | 10,912 |
| Exchange differences | – | (4,916) | (4,916) |
| As at 31 December 2021 | 38,527 | 48,899 | 87,426 |

The Company has recorded a credit of \$7,672,000, being the net change in expected credit losses for loans issued to subsidiaries in the Company's statement of profit or loss for the year ended 31 December 2021 (Note 3). As at 31 December 2021, following a review of the underlying cash flow forecasts of the subsidiaries and a significant increase in gas prices forecast, management reassessed the method of measurement of expected credit losses and use of the downside scenario, calculating the ECL based on the sovereign rating of Ukraine defined by Fitch as "B" as at 31 December 2021. The cash flow forecast would be sensitive to a breakeven discount rate of 26.00%, and a breakeven gas price of \$348/Mm³.

The Company also recorded a credit of \$3,240,000, being the net change in credit loss allowance for shares in subsidiary undertakings. The set off of the accumulated impairment of \$3,322,000 was due to the disposal of the fully impaired investment in Regal Petroleum (Jersey) Limited.

The Company's discounted cash flow model used for the assessment of the investments recoverability, flexed for sensitivities, produced the following results:

| | 31 December 2021 \$000 | 31 December 2020 \$000 |
|--|------------------------------|------------------------------|
| Discount rate (increase)/decrease by 1% | (641) / 676 | (810) / 867 |
| Change in gas price increase/(decrease) by 10% | 3,388 / (3,411) | 2,879 / (2,880) |

The table presented below discloses the changes in the gross carrying amount and credit loss allowance between the beginning and the end of the reporting period for loans to subsidiary undertakings carried at amortised cost and classified within a three-stage model for impairment assessment as at 31 December 2021:

| | Credit loss allowance | | | | Gross carrying amount | | | |
|---|--|---|---|-----------------|--|---|---|-----------------|
| | Stage 1 (12 months ECL) \$000 | Stage 2 (lifetime ECL for SICR) \$000 | Stage 3 (lifetime ECL for credit impaired) \$000 | Total \$000 | Stage 1 (12 months ECL) \$000 | Stage 2 (lifetime ECL for SICR) \$000 | Stage 3 (lifetime ECL for credit impaired) \$000 | Total \$000 |
| As at 1 January 2021 | - | - | (20,375) | (20,375) | - | - | 83,203 | 83,203 |
| <i>Movements with impact on credit loss allowance charge for the year:</i> | | | | | | | | |
| Modification of loans | - | - | (5,378) | (5,378) | - | - | 5,378 | 5,378 |
| Additions including accrued interest | - | - | - | - | 12,276 | - | 3,171 | 15,447 |
| Payment of interest | - | - | - | - | - | - | (3,134) | (3,134) |
| Repayment of loans | - | - | - | - | - | - | (28,998) | (28,998) |
| Exchange difference | - | - | 1,400 | 1,400 | - | - | (6,316) | (6,316) |
| Changes to ECL measurement model assumptions | (637) | - | 8,309 | 7,672 | - | - | - | - |
| Total movements with impact on credit loss allowance charge for the year | (637) | - | 4,331 | 3,694 | 12,276 | - | (29,899) | (17,623) |
| As at 31 December 2021 | (637) | - | (16,044) | (16,681) | 12,276 | - | 53,304 | 65,580 |

ECL – Expected credit losses

SICR – Significant increase in credit risk

The table presented below discloses the changes in the gross carrying amount and credit loss allowance between the beginning and the end of the reporting period for loans to subsidiary undertakings carried at amortised cost and classified within a three-stage model for impairment assessment as at 31 December 2020:

| | Credit loss allowance | | | | Gross carrying amount | | | |
|---|--|--|--|-----------------|--|--|--|-----------------|
| | Stage 1 (12 months ECL) \$000 | Stage 2 (lifetime ECL for SICR) \$000 | Stage 3 (lifetime ECL for credit impaired) \$000 | Total \$000 | Stage 1 (12 months ECL) \$000 | Stage 2 (lifetime ECL for SICR) \$000 | Stage 3 (lifetime ECL for credit impaired) \$000 | Total \$000 |
| As at 1 January 2020 | - | - | (167,072) | (167,072) | - | - | 181,253 | 181,253 |
| <i>Movements with impact on credit loss allowance charge for the year:</i> | | | | | | | | |
| Modification of loans | - | - | 72,412 | 72,412 | - | - | (72,412) | (72,412) |
| Additions including accrued interest | - | - | - | - | - | - | 4,336 | 4,336 |
| Transfers | - | - | - | - | - | - | (39,987) | (39,987) |
| Payment of interest | - | - | - | - | - | - | (4,318) | (4,318) |
| Repayment of loans | - | - | - | - | - | - | - | - |
| Exchange difference | - | - | (12,979) | (12,979) | - | - | 14,331 | 14,331 |
| Changes to ECL measurement model assumptions | - | - | 87,264 | 87,264 | - | - | - | - |
| Total movements with impact on credit loss allowance charge for the year | - | - | 146,697 | 146,697 | - | - | (98,050) | (98,050) |
| As at 31 December 2020 | - | - | (20,375) | (20,375) | - | - | 83,203 | 83,203 |

ECL – Expected credit losses

SICR – Significant increase in credit risk

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Subsidiary undertakings

As at 31 December 2021 and 2020, the Company's subsidiary undertakings, all of which are included in the consolidated financial statements, were:

| | Registered address | Country of incorporation | Country of operation | Principal activity | % of shares held |
|---|---|--------------------------|----------------------|--|------------------|
| Regal Petroleum Corporation Limited | 3rd Floor, Charter Place, 23-27 Seaton Place, St Helier, Jersey JE4 0WH | Jersey | Ukraine | Oil & Natural Gas Extraction | 100% |
| Regal Group Services Limited | 16 Old Queen Street, London SW1H 9HP | United Kingdom | United Kingdom | Service Company | 100% |
| Regal Petroleum (Jersey) Limited | 3rd Floor, Charter Place, 23-27 Seaton Place, St Helier, Jersey JE4 0WH | Jersey | United Kingdom | Holding Company | 100% |
| Regal Petroleum Corporation (Ukraine) Limited | 162 Shevchenko Str., Yakhnyky Village, Lohvytsya District, Poltava Region 37212 | Ukraine | Ukraine | Service Company | 100% |
| LLC Prom-Enerho Produkt | 3 Klemanska Str., Kiev 02081 | Ukraine | Ukraine | Oil & Natural Gas Extraction | 100% |
| LLC Arkona Gas-Energy | 162 Shevchenko Str., Yakhnyky Village, Lohvytsya District, Poltava Region 37212 | Ukraine | Ukraine | Exploration and Evaluation for Oil and Natural Gas | 100% |

The Parent Company, Enwell Energy plc, holds direct interests in 100% of the share capital of Regal Petroleum Corporation Limited, Regal Group Services Limited, Regal Petroleum (Jersey) Limited, Regal Petroleum Corporation (Ukraine) Limited and LLC Arkona Gas-Energy, and a 100% indirect interest in LLC Prom-Enerho Produkt through its 100% shareholding in Regal Petroleum Corporation (Ukraine) Limited, which owns all of the share capital of LLC Prom-Enerho Produkt.

Regal Group Services Limited, company number 5252958, has taken advantage of the subsidiary audit exemption allowed under section 479A of the Companies Act 2006 for the year ended 31 December 2021.

21. Inventories

| | Group | |
|---------------------------|---------------|---------------|
| | 2021 \$000 | 2020 \$000 |
| Current | | |
| Materials and spare parts | 1,705 | 1,445 |
| Finished goods | 157 | 96 |
| | 1,862 | 1,541 |

Inventories consist of materials, spare parts and finished goods. Materials and spare parts are represented by spare parts that were not assigned to any new wells, production raw materials and fuel at the storage facility. Finished goods consist of produced gas held in underground gas storage facilities and condensate and LPG held at the processing facility prior to sale.

As at 31 December 2021, allowances for impairment of materials and spare parts amounted to \$965,000 (31 December 2020: \$974,000).

All inventories are measured at the lower of cost or net realisable value. There was no write down of inventory as at 31 December 2021 or 2020.

22. Trade and Other Receivables

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2021 \$000 | 2020 \$000 | 2021 \$000 | 2020 \$000 |
| Trade receivables | 5,308 | 1,936 | – | – |
| Other financial receivables | 200 | 1,053 | 196 | 304 |
| Less credit loss allowance | (140) | (133) | – | – |
| Total financial receivables | 5,368 | 2,856 | 196 | 304 |
| Prepayments and accrued income | 5,231 | 1,387 | 28 | 55 |
| Other receivables | 2,460 | 604 | 75 | 76 |
| Total trade and other receivables | 13,059 | 4,847 | 299 | 435 |

Due to the short-term nature of the trade and other 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.

As at 31 December 2021, the Group's total trade receivables, net of expected credit losses amounted to \$5,169,000 and 100% were denominated in Ukrainian Hryvnia (31 December 2020: \$1,806,000 and 100% were denominated in Ukrainian Hryvnia). Further description of financial receivables is disclosed in Note 30.

The majority of the trade receivables are from a related party, LLC Smart Energy, that purchases all of the Group's gas production (see Note 3). The applicable payment terms, which were revised in the period, are payment for 35% of the monthly volume of gas by the 15th of the month following the month of delivery, and payment of the remaining balance by the end of that month (2020: 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 year.

Prepayments and accrued income mainly consist of prepayments of \$1,366,000 relating to the development of the SV field, \$1,210,000 relating to the development of the MEX-GOL field and \$2,284,000 relating to the development of the SC licence (31 December 2020: of \$926,000 relating to the development of the SV licence).

Analysis by credit quality of financial trade and other receivables and expected credit loss allowance as at 31 December 2021 is as follows:

| | Loss rate | Gross carrying amount \$000 | Lifetime ECL \$000 | Carrying amount \$000 | Basis |
|--|-----------|--------------------------------|-----------------------|--------------------------|--------------------------------------|
| Trade receivables from related parties | 5% | 5,015 | (7) | 5,008 | financial position of related party |
| Trade receivables – credit impaired | 100% | 132 | (132) | – | number of days the asset past due |
| Trade receivables – other | 0.21% | 161 | – | 161 | historical credit losses experienced |
| Other financial receivables | 0.48% | 200 | (1) | 199 | individual default rates |
| Total trade and other receivables for which individual approach for ECL is used | | 5,508 | (140) | 5,368 | |

Analysis by credit quality of financial trade and other receivables and expected credit loss allowance as at 31 December 2020 is as follows:

| | Loss rate | Gross carrying amount \$000 | Lifetime ECL \$000 | Carrying amount \$000 | Basis |
|--|-----------|--------------------------------|-----------------------|--------------------------|--------------------------------------|
| Trade receivables from related parties | 5% | 1,804 | (3) | 1,801 | financial position of related party |
| Trade receivables – credit impaired | 100% | 127 | (127) | – | number of days the asset past due |
| Trade receivables – other | 0.21% | 5 | – | 5 | historical credit losses experienced |
| Other financial receivables | 0.42% | 1,053 | (3) | 1,050 | individual default rates |
| Total trade and other receivables for which individual approach for ECL is used | | 2,989 | (133) | 2,856 | |

ECL – Expected credit losses

The following table explains the changes in the credit loss allowance for trade and other receivables under the simplified ECL model between the beginning and the end of the year:

| | 2021 \$000 | 2020 \$000 |
|---|---------------|---------------|
| Trade and other receivables | | |
| Balance as at 1 January | 133 | 155 |
| New originated or purchased | 24 | – |
| Financial assets derecognised during the year | (19) | – |
| Changes in estimates and assumptions | (3) | 3 |
| Foreign exchange movements | 5 | (25) |
| Balance as at 31 December | 140 | 133 |

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23. Cash and Cash Equivalents and Other Short-term Investments

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2021 \$000 | 2020 \$000 | 2021 \$000 | 2020 \$000 |
| Cash and Cash Equivalents | | | | |
| Cash at bank | 75,457 | 53,710 | 63,299 | 38,619 |
| Demand deposits and term deposits with maturity of less than 3 months | 12,323 | 7,283 | – | – |
| | 87,780 | 60,993 | 63,299 | 38,619 |
| Other Short-term Investments | | | | |
| Demand deposits and term deposits with maturity of more than 3 months but less than a year | 4,762 | – | – | – |
| | 4,762 | – | – | – |

Cash at bank earns interest at fluctuating rates based on daily bank deposit rates. Demand deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The terms and conditions upon which the Group's demand deposits are made allow immediate access to all cash deposits, with no significant loss of interest.

The credit quality of cash and cash equivalents balances and other short-term investments may be summarised based on Moody's ratings as follows as at 31 December:

| | Cash at bank and on hand 2021 \$000 | Demand deposits and term deposits with maturity less than 3 months 2021 \$000 | Demand deposits and term deposits with maturity more than 3 months 2021 \$000 | Total cash and cash equivalents and other short-term investments 2021 \$000 |
|-----------------------|--|--|--|---|
| A- to A+ rated | 63,290 | – | – | 63,290 |
| B- to B+ rated | 900 | 8,660 | 4,762 | 14,322 |
| Unrated | 11,267 | 3,663 | – | 14,930 |
| | 75,457 | 12,323 | 4,762 | 92,542 |

| | Cash at bank and on hand 2020 \$000 | Demand deposits and term deposits with maturity less than 3 months 2020 \$000 | Demand deposits and term deposits with maturity more than 3 months 2020 \$000 | Total cash and cash equivalents and other short-term investments 2020 \$000 |
|----------------|--|--|--|---|
| A- to A+ rated | 38,615 | – | – | 38,615 |
| B- to B+ rated | 1 | 5,477 | – | 5,478 |
| Unrated | 15,094 | 1,806 | – | 16,900 |
| | 53,710 | 7,283 | – | 60,993 |

For cash and cash equivalents and other short-term investments, the Group assessed ECL based on the Moody's rating for rated banks and based on the sovereign rating of Ukraine defined by Fitch as "B" as at 31 December 2021 for non-rated banks. Based on this assessment, the Group concluded that the identified impairment loss was immaterial.

24. Trade and Other Payables

| | 2021 \$000 | 2020 \$000 |
|------------------------------|---------------|---------------|
| Taxation and social security | 5,031 | 1,396 |
| Trade payables | 3,404 | 843 |
| Accruals and other payables | 3,354 | 4,037 |
| Advances received | 517 | 365 |
| | 12,306 | 6,641 |

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature. Financial payables are disclosed in Note 30.

25. Provision for Decommissioning

| Group | 2021 \$000 | 2020 \$000 |
|-------------------------------|---------------|---------------|
| At the beginning of the year | 6,819 | 7,447 |
| Amounts provided | 198 | 146 |
| Unwinding of discount | 250 | 234 |
| Change in estimate | (2,049) | 226 |
| Effect of exchange difference | 249 | (1,234) |
| At the end of the year | 5,467 | 6,819 |

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

The non-current provision of \$5,467,000 (31 December 2020: \$6,819,000) represents a provision for the decommissioning of the Group's MEX-GOL, SV, VAS and SC production and exploration facilities, including site restoration.

The change in estimates applied to calculate the provision as at 31 December 2021 is explained in Note 3.

The principal assumptions used are as follows:

| | 31 December 2021 | 31 December 2020 |
|--|---------------------|---------------------|
| Discount rate | 6.29% | 3.70% |
| Average cost of restoration per well (\$000) | 348 | 342 |

The sensitivity of the restoration provision to changes in the principal assumptions to the provision balance and related asset is presented below:

| | 31 December 2021 \$000 | 31 December 2020 \$000 |
|---|------------------------------|------------------------------|
| Discount rate (increase)/decrease by 1% | (723) / 860 | (948) / 1,143 |
| Change in average cost of well restoration increase/(decrease) by 10% | 353 / (353) | 469 / (469) |

26. Deferred Tax

| | 2021 \$000 | 2020 \$000 |
|---|----------------|----------------|
| Deferred tax (liability)/asset recognised relating to oil and gas development and production assets at the MEX-GOL-SV fields and provision for decommissioning | | |
| At the beginning of the year | (2,705) | (2,141) |
| Charged to Income Statement – UK current year | (2,367) | (640) |
| Charged to Income Statement – UK prior year | – | – |
| Effect of exchange difference | (125) | 76 |
| At the end of the year | (5,197) | (2,705) |

| | 2021 \$000 | 2020 \$000 |
|---|---------------|---------------|
| Deferred tax asset/(liability) recognised relating to development and production assets at the VAS field and provision for decommissioning | | |
| At the beginning of the year | 167 | (147) |
| Credited to Income Statement – overseas current year | 199 | 304 |
| Effect of exchange difference | (5) | 10 |
| At the end of the year | 361 | 167 |

There was a further \$76,433,000 (31 December 2020: \$73,661,000) of unrecognised UK tax losses carried forward for which no deferred tax asset has been recognised. This amount includes \$4,065,000 of previous losses added during the period as a result of finalisation of the tax return. These losses can be carried forward indefinitely, subject to certain rules regarding capital transactions and changes in the trade of the Company.

The deferred tax asset relating to the Group's provision for decommissioning as at 31 December 2021 of \$457,000 (31 December 2020: \$170,000) 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 as at 31 December 2021 of \$5,654,000 (31 December 2020: \$2,875,000) 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 liability will be settled more than twelve months after the reporting period.

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The deferred tax asset relating to the Group's provision for decommissioning as at 31 December 2021 of \$315,000 (31 December 2020: \$323,000) 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 asset relating to the Group's development and production assets at the VAS field as at 31 December 2021 of \$46,000 (31 December 2020: deferred tax liability of \$156,000) 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. The deferred tax assets are expected to be recovered more than twelve months after the reporting period.

Losses accumulated in a Ukrainian subsidiary service company of UAH 835,298,000 (\$30,621,000) as at 31 December 2021 and UAH 1,763,494,000 (\$62,370,000) as at 31 December 2020 mainly originated as foreign exchange differences on inter-company loans and for which no deferred tax asset was recognised as this subsidiary is not expected to have taxable profits to utilise these losses in the future.

As at 31 December 2021 and 2020, the Group has not recorded a deferred tax liability in respect of taxable temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

UK Corporation tax change

The current Corporation tax rate of 19% generally applies to all companies whatever their size. From 1 April 2023, this rate will cease to apply and will be replaced by variable rates ranging from 19% to 25%. A small profits rate of 19% will apply to companies whose profits are equal to or less than £50,000. The main Corporation Tax rate is increased to 25% and will apply to companies with profits in excess of £250,000. This had an impact on the deferred tax liability and the income tax expense in the amount of \$1,168,000 (Note 13).

Double tax treaty

On 30 October 2019, the Parliament of Ukraine voted for ratification of a Protocol changing the Double Tax Treaties between Ukraine and the United Kingdom. The Protocol and the new Treaty will enter into force upon completion of ratification formalities, and for the purposes of withholding tax, commence applying from 1 January 2020. The Group accrues and pays withholding tax on current amounts of interest at the moment when such interest accrues and is paid.

27. Called Up Share Capital

| | 2021 | | 2020 | |
|---|--------------------|---------------|-------------|--------|
| | Number | \$000 | Number | \$000 |
| Allotted, called up and fully paid | | | | |
| Opening balance as at 1 January | 320,637,836 | 28,115 | 320,637,836 | 28,115 |
| Issued during the year | – | – | – | – |
| Closing balance as at 31 December | 320,637,836 | 28,115 | 320,637,836 | 28,115 |

There are no restrictions over ordinary shares issued. The Company is a public company limited by shares.

28. Other Reserves

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at any general meeting of shareholders.

Other reserves, the movements in which are shown in the statements of changes in equity, comprise the following:

Capital contributions reserve

The capital contributions reserve is non-distributable and represents the value of equity invested in subsidiary entities prior to the Company listing.

Merger reserve

The merger reserve represents the difference between the nominal value of shares acquired by the Company and those issued to acquire subsidiary undertakings. This balance relates wholly to the acquisition of Regal Petroleum (Jersey) Limited and that company's acquisition of Regal Petroleum Corporation Limited during 2002.

Foreign exchange reserve

Exchange reserve movement for the year attributable to currency fluctuations. This balance predominantly represents the result of exchange differences on non-monetary assets and liabilities where the subsidiaries' functional currency is not the US Dollar.

29. Reconciliation of Operating Profit to Operating Cash Flow

| Group | 2021 \$000 | 2020 \$000 |
|---|---------------|---------------|
| Operating profit | 66,235 | 9,770 |
| Depreciation and amortisation | 11,958 | 12,679 |
| Less interest income recorded within operating profit | (763) | (1,421) |
| Fines and penalties received | (81) | (18) |
| Gain on sales of current assets, net | (16) | (31) |
| Net (gain)/loss on sale of non-current assets | (16) | 159 |
| <i>Change in working capital:</i> | | |
| Increase in provisions | (6) | (55) |
| (Increase)/decrease in inventory | (104) | 2,499 |
| (Increase)/decrease in receivables | (4,463) | 359 |
| Increase/(decrease) in payables | 4,902 | (177) |
| Cash generated from operations | 77,646 | 23,764 |

| Company | 2021 \$000 | 2020 \$000 |
|---|----------------|----------------|
| Operating profit | 11,591 | 58,018 |
| Interest received | (3,447) | (4,336) |
| <i>Change in working capital:</i> | | |
| Movement in provisions (including impairment of subsidiary loans) | (10,912) | (57,122) |
| Decrease/(increase) in receivables | 136 | (101) |
| (Decrease)/increase in payables | (188) | 13 |
| Cash used in operations | (2,820) | (3,528) |

30. Financial Instruments

Capital Risk Management

The Group defines its capital as equity. As at 31 December 2021, net assets were \$178,517,000 (31 December 2020: \$125,615,000). The primary source of the Group's liquidity has been cash generated from operations. The Group's objectives when managing capital are to safeguard the Group's and the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

On 25 February 2021, the Company completed a reduction of its share capital through the cancellation of its entire share premium account, thereby creating distributable reserves, which enables the Company to make distributions to its shareholders in the future, subject to the Company's financial performance. However, the Company is not indicating any commitment, and does not have any current intention, to make any distributions to shareholders.

The capital structure of the Group consists of equity attributable to the equity holders of the parent, comprising issued share capital, share premium, reserves and retained earnings.

There are no capital requirements imposed on the Group.

Financial Risk Management

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 external borrowings. The main future risks arising from the Group's financial instruments are currently currency risk, interest rate risk, liquidity risk and credit risk.

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The Group's financial assets and financial liabilities comprise the following:

Financial Assets

| Group | 2021 \$000 | 2020 \$000 |
|------------------------------|-----------------------|-----------------------|
| Cash and cash equivalents | 87,780 | 60,993 |
| Other short-term investments | 4,762 | – |
| Trade and other receivables | 5,368 | 2,856 |
| | 97,910 | 63,849 |

| Company | 2021 \$000 | 2020 \$000 |
|----------------------------------|-----------------------|-----------------------|
| Cash and cash equivalents | 63,299 | 38,619 |
| Loans to subsidiary undertakings | 48,899 | 62,828 |
| | 112,198 | 101,447 |

Financial Liabilities

| Group | 2021 \$000 | 2020 \$000 |
|-----------------------------|-----------------------|-----------------------|
| Lease liabilities | 1,103 | 616 |
| Trade and other payables | 3,404 | 843 |
| Other financial liabilities | 2,244 | 4,336 |
| | 6,751 | 5,795 |

| Company | 2021 \$000 | 2020 \$000 |
|--------------------------|-----------------------|-----------------------|
| Trade and other payables | 1,767 | 4,247 |
| | 1,767 | 4,247 |

Financial assets and financial liabilities are measured at amortised cost, which approximates their fair value as the instruments are mostly short term. Assets and liabilities of the Group, where fair value is disclosed, are level 2 in the fair value hierarchy and valued using the current cost accounting technique.

Financial instruments that potentially subject the Group to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable, and financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and loans to subsidiary undertakings.

Currency Risk

The functional currencies of the Group's entities are US Dollars and Ukrainian Hryvnia. The following analysis of net monetary assets and liabilities shows the Group's currency exposures. Exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the relevant entity.

| Currency | 2021 \$000 | 2020 \$000 |
|---|-----------------------|-----------------------|
| British Pounds | 275 | 232 |
| US Dollars | 234 | 1,806 |
| Euros | 9 | 5 |
| Net monetary assets less liabilities | 518 | 2,043 |

The Group's exposure to currency risk at the end of the reporting period is not significant due to immaterial balances of monetary assets and liabilities denominated in foreign currencies.

The sensitivity of the exchange rate of US Dollars is presented below:

| | 31 December 2021 \$000 | 31 December 2020 \$000 |
|----------------------------|---------------------------------------|---------------------------------------|
| Increase/(decrease) by 10% | 23/(23) | 189/(189) |

The prior year comparative figures were amended to conform to the current year presentation.

Interest Rate Risk Management

The Group is not exposed to interest rate risk on financial liabilities as none of the entities in the Group have any external borrowings. The Group does not use interest rate forward contracts and interest rate swap contracts as part of its strategy.

The Group is exposed to interest rate risk on financial assets as entities in the Group hold money market deposits at floating interest rates. The risk is managed by fixing interest rates for a period of time when indications exist that interest rates may move adversely.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk section below.

Interest Rate Sensitivity Analysis

The sensitivity analysis below has been determined based on exposure to interest rates for non-derivative instruments at the balance sheet date. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates.

If interest rates earned on money market deposits had been 0.5% higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2021 would increase by \$136,000 in the event of 0.5% higher interest rates and decrease by \$136,000 in the event of 0.5% lower interest rates (profit for the year ended 31 December 2020 would increase by \$97,000 in the event of 0.5% higher interest rates and decrease by \$97,000 in the event of 0.5% lower interest rates). This is mainly attributable to the Group's exposure to interest rates on its money market deposits; and
- other equity reserves would not be affected (2020: not affected).

Interest payable on the Group's liabilities would have an immaterial effect on the profit or loss for the year.

Liquidity Risk

The Group's objective throughout the year has been to ensure continuity of funding. Operations have primarily been financed through revenue from Ukrainian operations.

The table below shows liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows including future interest. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows and does not include the interest that will be accrued in future periods.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period. The maturity analysis of financial liabilities as at 31 December 2021 is as follows:

| As at 31 December 2021 | On demand and less than 1 month \$000 | From 1 to 3 months \$000 | From 3 to 12 months \$000 | From 12 months to 5 years \$000 | More than 5 years \$000 | Total \$000 |
|--|--|-----------------------------|------------------------------|------------------------------------|----------------------------|----------------|
| Liabilities | | | | | | |
| Trade and other payables | 4,030 | 1,618 | – | – | – | 5,648 |
| Lease liabilities | 39 | 80 | 381 | 661 | 492 | 1,653 |
| Other non-current liabilities | – | – | – | 142 | 256 | 398 |
| Total future payments, including future principal and interest payments | 4,069 | 1,698 | 381 | 803 | 748 | 7,699 |

The maturity analysis of financial liabilities as at 31 December 2020 is as follows:

| As at 31 December 2020 | On demand and less than 1 month \$000 | From 1 to 3 months \$000 | From 3 to 12 months \$000 | From 12 months to 5 years \$000 | More than 5 years \$000 | Total \$000 |
|--|--|-----------------------------|------------------------------|------------------------------------|----------------------------|----------------|
| Liabilities | | | | | | |
| Trade and other payables | 1,137 | 2,158 | 33 | – | – | 3,328 |
| Lease liabilities | 40 | 80 | 101 | 291 | 539 | 1,051 |
| Other non-current liabilities | – | 27 | – | 2,569 | – | 2,596 |
| Total future payments, including future principal and interest payments | 1,177 | 2,265 | 134 | 2,860 | 539 | 6,975 |

Details of the Group's cash management policy are explained in Note 23.

Liquidity risk for the Group is further explained in the Principal Risks and Uncertainties section of this Report.

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Credit Risk

Credit risk principally arises in respect of the Group's cash balance. For balances held outside Ukraine, where \$63,299,000 of the overall cash and cash equivalents is held (31 December 2020: \$38,619,000), the Group only deposits cash surpluses with major banks of high quality credit standing (Note 23). As at 31 December 2021, the remaining balance of \$29,243,000 of cash and cash equivalents and other short-term investments was held in Ukraine (31 December 2020: \$22,374,000). As at 31 December 2021, Standard & Poor's affirmed Ukraine's sovereign credit rating of "B", Outlook Stable. There is no international credit rating information available for the specific banks in Ukraine where the Group currently holds its cash and cash equivalents.

The Group has taken steps to diversify its banking arrangements between a number of banks in Ukraine and increased the quality of cash placed with UK and European banking institutions. These measures are designed to spread the risks associated with each bank's creditworthiness. Management considers the credit risk to be immaterial.

Interest Rate Risk Profile of Financial Assets

The Group had the following cash and cash equivalent and other short-term investments balances which are included in financial assets as at 31 December with an exposure to interest rate risk:

| Currency | Floating rate financial assets | | | Fixed rate financial assets | | |
|-------------------|--------------------------------|---------------|---------------|-----------------------------|--|---|
| | Total 2021 \$000 | 2021 \$000 | 2021 \$000 | Total 2020 \$000 | Floating rate financial assets 2020 \$000 | Fixed rate financial assets 2020 \$000 |
| Euros | 9 | 9 | – | 5 | 5 | – |
| British Pounds | 275 | 275 | – | 232 | 232 | – |
| Ukrainian Hryvnia | 29,011 | – | 29,011 | 20,569 | – | 20,569 |
| US Dollars | 63,247 | 63,247 | – | 40,187 | 40,187 | – |
| | 92,542 | 63,531 | 29,011 | 60,993 | 40,424 | 20,569 |

Cash deposits included in the above balances comprise term deposits with maturity less than 3 months of \$12,323,000 and term deposits with maturity more than 3 months but less than a year of \$4,762,000 (2020: term deposits with maturity less than 3 months of \$7,283,000).

As at 31 December 2021, cash and cash equivalents of the Company of \$63,015,000 were held in US Dollars at a floating rate (2020: \$38,382,000).

Interest Rate Risk Profile of Financial Liabilities

As at 31 December 2021 and 2020, the Group had no interest bearing financial liabilities at the year-end.

Maturity of Financial Liabilities

The maturity profile of financial liabilities, on an undiscounted basis, is as follows:

| Group | 2021 \$000 | 2020 \$000 |
|---------------------|---------------|---------------|
| In one year or less | 6,148 | 3,576 |
| | 6,148 | 3,576 |

| Company | 2021 \$000 | 2020 \$000 |
|---------------------|---------------|---------------|
| In one year or less | 1,767 | 2,395 |
| | 1,767 | 2,395 |

Borrowing Facilities

As at 31 December 2021 and 2020, the Group did not have any borrowing facilities available to it.

Fair Value of Financial Assets and Liabilities

The fair value of all financial instruments is not materially different from the book value.

31. Contingencies and Commitments

Amounts contracted in relation to the Group's 2021 investment programme in the MEX-GOL, SV, VAS and SC fields in Ukraine, but not provided for in the financial statements at 31 December 2021, were \$3,101,000 related to Oil and Gas Exploration and Evaluation assets and \$2,674,000 related to Oil and Gas Development and Production assets (2020: \$9,052,000 for Oil and Gas Development and Production assets).

Since 2010, 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 UAH 8,487,000 (\$302,000) inclusive of penalties and other associated costs. There is a level of ambiguity in the interpretation of the relevant tax legislation, and the position adopted by the Group has been challenged by the Ukrainian tax authorities, which has led to legal proceedings to resolve the issue. The Group had been successful in three court cases in respect of this dispute in courts of different levels. On 20 September 2016, a hearing was held in the Supreme Court of Ukraine of an appeal of the Ukrainian tax authorities against the decision of the Higher Administrative Court of Ukraine, in which the appeal of the Ukrainian tax authorities was upheld. As a result of this appeal decision, all decisions of the lower courts were cancelled, and the case was remitted to the first instance court for a new trial. On 1 December 2016 and 7 March 2017 respectively, the Group received positive decisions in the first and second instance courts, but no appointment of hearings has been settled yet. No liability has been recognised in these consolidated financial statements for the year ended 31 December 2021 (31 December 2020: nil), as the Group has 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 management believes that adequate defences exist to the claim.

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.

On 24 March 2020, the Company completed the acquisition of the entire share capital of LLC Arkona Gas-Energy. In July 2020, legal proceedings issued by PJSC Ukrnafta ("Ukrnafta"), as claimant, against Arkona, as defendant, relating to a claim by Ukrnafta that irregular procedures were followed in the grant of the Svystunivsko-Chervonolutskyi exploration licence (the "Licence") to Arkona in May 2017, were considered by the First Instance Court in Ukraine. Ukrnafta also brought these proceedings against the State Service of Geology and Subsoil of Ukraine ("SGS"). Ukrnafta was the holder of a previous licence over a part of this area, which expired prior to the grant of the Licence. Both Arkona and SGS disputed these claims. In the legal proceedings, the First Instance Court made a ruling in favour of Ukrnafta which determined that the grant of the Licence was irregular, and accordingly, the Licence would be invalid. In August 2020, Arkona filed an appeal of this decision in the Appellate Administrative Court in Kyiv, and on 29 September 2020, the Appellate Administrative Court ruled in favour of Arkona, overturning the earlier decision of the First Instance Court. In November 2020, Ukrnafta filed a further appeal in the Supreme Court in Kyiv, appealing the ruling made by the Appellate Administrative Court on 29 September 2020. In February 2021, the Supreme Court delivered its decision and written judgement on this appeal, in which the Supreme Court ruled that the arguments raised by Ukrnafta in the appeal were not substantiated, and that the proceedings against Arkona should be dismissed. The decision of the Supreme Court represents the final appeal procedure in the Ukrainian Courts, and accordingly, these legal proceedings against Arkona have now been exhausted. Prior to the Company's acquisition of Arkona, Ukrnafta had previously issued legal proceedings in 2018, raising substantially the same claims, which proceeded through the First Instance Court and Appellate Administrative Court, before a final appeal was determined by the Supreme Court in October 2019, in which Ukrnafta's claims were denied. In April 2021, an entity named JV Boryslav Oil Company, which is 25.0999% owned by Ukrnafta, issued a further legal claim, also claiming that irregular procedures were followed in the grant of the Licence, which claim was denied by the First Instance Court in July 2021 and by the Appellate Administrative Court in October 2021. There was no further appeal in this case and so the decision of the Appellate Administrative Court is final. In September 2021, JV Boryslav Oil Company issued a further legal claim, again claiming that irregular procedures were followed in the grant of the Licence, against the SGS and the State Commission of Ukraine for Mineral Resources ("SCP"), as defendants, with Arkona and Ukrnafta named as third parties. In this claim, the First Instance Court made a ruling in January 2022 in favour of JV Boryslav Oil Company, which has been appealed to the Appellate Administrative Court, and this appeal is expected to be determined in the near future. Pending the hearing of this appeal, the ruling of the First Instance Court did not come into force, and consequently, the Licence remains valid.

Notes CONTINUED

forming part of the financial statements

32. Related Party Disclosures

Key management personnel of the Group are considered to comprise only the Directors. Details of Directors' remuneration are disclosed in Note 7.

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

| | 2021 \$000 | 2020 \$000 |
|---------------------------------|---------------|---------------|
| Sale of goods/services | 95,342 | 32,074 |
| Purchase of goods/services | 1,099 | 890 |
| Amounts owed by related parties | 5,008 | 1,805 |
| Amounts owed to related parties | 912 | 202 |

All related party transactions were with subsidiaries of the ultimate Parent Company, and primarily relate to the sale of gas (see Note 3 for more details), the rental of office facilities and a vehicle and the sale of equipment. The amounts outstanding were unsecured and will be settled in cash.

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

33. Post Balance Sheet Events

On 21 February 2022, the President of Russia announced the recognition of independence of two regions of Ukraine: the self-proclaimed Donetsk People's Republic and the Luhansk People's Republic and ordered the deployment of troops to the two rebel-held eastern regions. On 23 February 2022, the National Security and Defence Council of Ukraine declared a state of emergency. On 24 February 2022, the President of Russia announced a "special military operation" in Ukraine, which de facto represented a declaration of war by the Russian Federation against Ukraine. Russian troops immediately launched a military attack and invasion of Ukraine, with missile strikes on major Ukrainian cities and deployment of troops onto the territory of Ukraine, with the consequent defence by Ukraine, and a wide range of military engagements and activity. The President of Ukraine signed Decree No. 64/2022 "On the imposition of martial law in Ukraine", which was approved by the Ukrainian Parliament. Currently, the Ukrainian army continues to actively resist, and in part push back the invasion. At the same time, a very broad range of countries across the world, imposed sanctions on Russia as a result of its invasion of Ukraine, targeting the Russian economy, financial institutions and a wide range of individuals. Moreover, various international companies are suspending or terminating their activities in Russia.

The final resolution and consequences of these events are hard to predict, but they may have a further serious impact on the Ukrainian economy and business of the Group. Management continues to identify and mitigate, where possible, the impact on the Group, but the majority of these factors are beyond their control, including the duration and severity of conflict, as well as the further actions of various governments and diplomacy.

In light of the Russian military action in Ukraine, on 24 February 2022, the Group shut-in and made safe its production and drilling operations at all of its fields. Subsequently, on 11 March 2022, having taken a number of measures to ensure safe operations, the Group commenced the partial restart of production operations at its MEX-GOL and SV fields, and subsequently field operations have been undertaken at those fields, including the completion of the SV-31 well. More recently, plans have been made to complete the drilling of the SC-4 well at the SC licence area. However, all operations remain suspended at the VAS gas and condensate field.

In January 2022, the Government of Ukraine imposed temporary and partial gas price regulation to sustain production of certain food products. Under this scheme, all independent gas producers in Ukraine were required to sell up to 20% of their natural gas production for the period until 30 April 2022 at a price set as the cost of sales of the relevant gas producer (based on established accounting rules) for such gas, plus a margin of 24%, plus existing subsoil production taxes.

In March 2022, the Ukrainian Government enacted changes to the subsoil production tax rates applicable to natural gas production by modifying the applicable rates based on gas sales prices, extending the incentive rates for new wells for a further 10 years and making improvements to the regulatory environment. These changes took effect on 1 March 2022, and the legislation includes provisions that these rates will not be increased for 10 years. In addition, the excise tax applicable to LPG sales was cancelled entirely with effect from 24 February 2022, and the VAT rate applicable to condensate and LPG sales was reduced to 7% (from 20%) with effect from 18 March 2022.

The events described above constitute non-adjusting post balance sheet events, and therefore they had no effect on the carrying value of the assets and liabilities as at 31 December 2021. Any impact on the carrying value of assets and liabilities will be considered in the results for the six months ended 30 June 2022.

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Glossary

| | |
|------------------------|---|
| AAPG | American Association of Petroleum Geologists |
| Arkona | LLC Arkona Gas-Energy |
| bbl | barrel |
| bbl/d | barrels per day |
| Bm³ | thousands of millions of cubic metres |
| boe | barrels of oil equivalent |
| boepd | barrels of oil equivalent per day |
| Bscf | thousands of millions of scf |
| Company | Enwell Energy plc |
| D&M | DeGolyer and MacNaughton |
| € | Euro |
| Group | Enwell Energy plc and its subsidiaries |
| km | kilometre |
| km² | square kilometre |
| LPG | liquefied petroleum gas |
| MEX-GOL | Mekhdiviska-Golotvshinska |
| m³ | cubic metres |
| m³/d | cubic metres per day |
| Mboe | thousand barrels of oil equivalent |
| Mm³ | thousand cubic metres |
| MMbbl | million barrels |
| MMboe | million barrels of oil equivalent |
| MMm³ | million cubic metres |
| MMscf | million scf |
| MMscf/d | million scf per day |
| Mtonnes | thousand tonnes |
| % | per cent |
| QCA Code | Quoted Companies Alliance Corporate Governance Code 2018 |
| 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 |
| Tscf | trillion scf |
| \$ | United States Dollar |
| UAH | Ukrainian Hryvnia |
| VAS | Vasyshevskoye |
| VED | Vvdenska |
| WPC | World Petroleum Council |

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