

**enwell**  
ENERGY

Company number: 04462555

## Relentless Focus

planning for  
a new well to exploit  
VED prospect within the VAS  
area has continued, and upgrade  
the gas processing facilities, flow  
network and other infrastructure  
underway.

Overall production continued its  
upward trend during the year, achieving  
record levels for the Group and being  
approximately 6.5% higher than in  
2019, with a substantial boost in May  
2020, when the SV-54 well came on  
production.

### Production

The average daily production of  
condensate and  
GOR



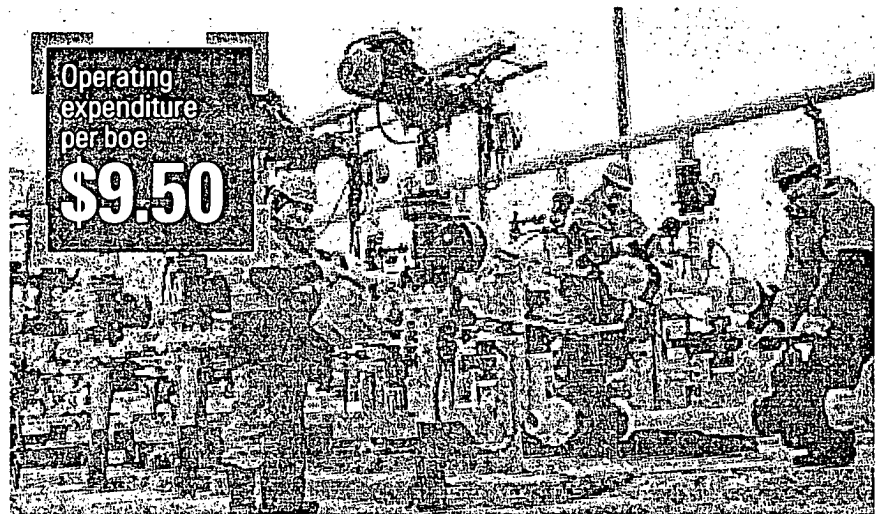
Enwell Energy plc Annual Report and Financial Statements for the year ended 31 December 2020

## Contents

<b>Strategic report</b>	
Highlights	02
Where We Operate	04
Our Value Proposition	05
Chairman's Statement	06
Chief Executive's Statement	06
Focus for Growth	11
Business Model	12
Our Strategic Priorities	13
Statement under S.72(1), Companies Act 2006	14
Overview of Assets	16
Overview of Risks	19
Financial Review	20
CO <sub>2</sub> Emissions	22
Corporate Social Responsibility Overview	24
Principal Risks and Opportunities	26
<b>Governance</b>	
Board of Directors	32
Company Governance Statement	36
Directors' Report	37
Independent Auditor's Report	39
<b>Financials</b>	
Consolidated Income Statement	45
Consolidated Statement of Comprehensive Income	46
Company Statement of Comprehensive Income	46
Consolidated Balance Sheet	47
Consolidated Statement of Changes in Equity	48
Consolidated Cash Flow Statement	49
Consolidated Statement of Financial Instruments	50
Company Statement of Financial Instruments	51
Company Cash Flow Statement	52
Notes forming part of the financial statements	53
Appendix	82
Glossary	84

**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.**

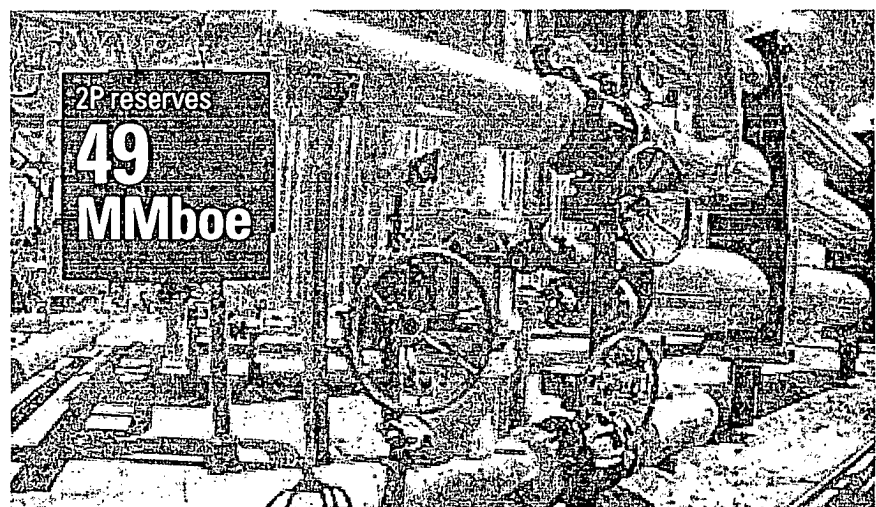
Rigorous control  
of our production  
processes and costs



Capital structure  
to implement our  
near-term strategy



Reserves growth  
increase since 2013  
by a factor of four



# Highlights

## Production

Up 6.5%

**4,541** boepd

(2019: 4,263 boepd)

## Revenue

Down 15%

**\$47.3m**

(2019: \$55.9 million)

## Cash generated from operations

Down 4%

**\$23.8m**

(2019: \$24.7 million)

## Operational

- Aggregate average daily production of 4,541 boepd (2019: 4,263 boepd), an increase of approximately 6.5%
- SV-54 development well successfully completed and brought on production in May 2020
- Drilling of SV-25 appraisal well successfully completed and hooked up for production in Q1 2021
- MEX-GOL and SV production licences each extended to 2040, enabling full economic development of remaining reserves
- No operational disruption to the Group's operations linked to the COVID-19 pandemic

## Financial

- Revenue of \$47.3 million (2019: \$55.9 million), down 15% as a function of weakened gas prices in the year
- Gross profit of \$15.7 million (2019: \$23.5 million), down 33%
- Cash generated from operations of \$23.8 million (2019: \$24.7 million), remained steady, predominantly due to record production increasing non-cash DD&A
- Net profit of \$3.2 million (2019: \$12.2 million)
- Cash and cash equivalents were steady at \$61.0 million at 31 December 2020 (2019: \$62.5 million)
- Average realised gas, condensate and LPG prices in Ukraine were lower, particularly gas prices, at \$136/Mm<sup>3</sup> (UAH3,618/Mm<sup>3</sup>), \$46/bbl and \$46/bbl respectively (2019: \$219/Mm<sup>3</sup> (UAH5,729/Mm<sup>3</sup>) gas, \$58/bbl condensate and \$55/bbl LPG)

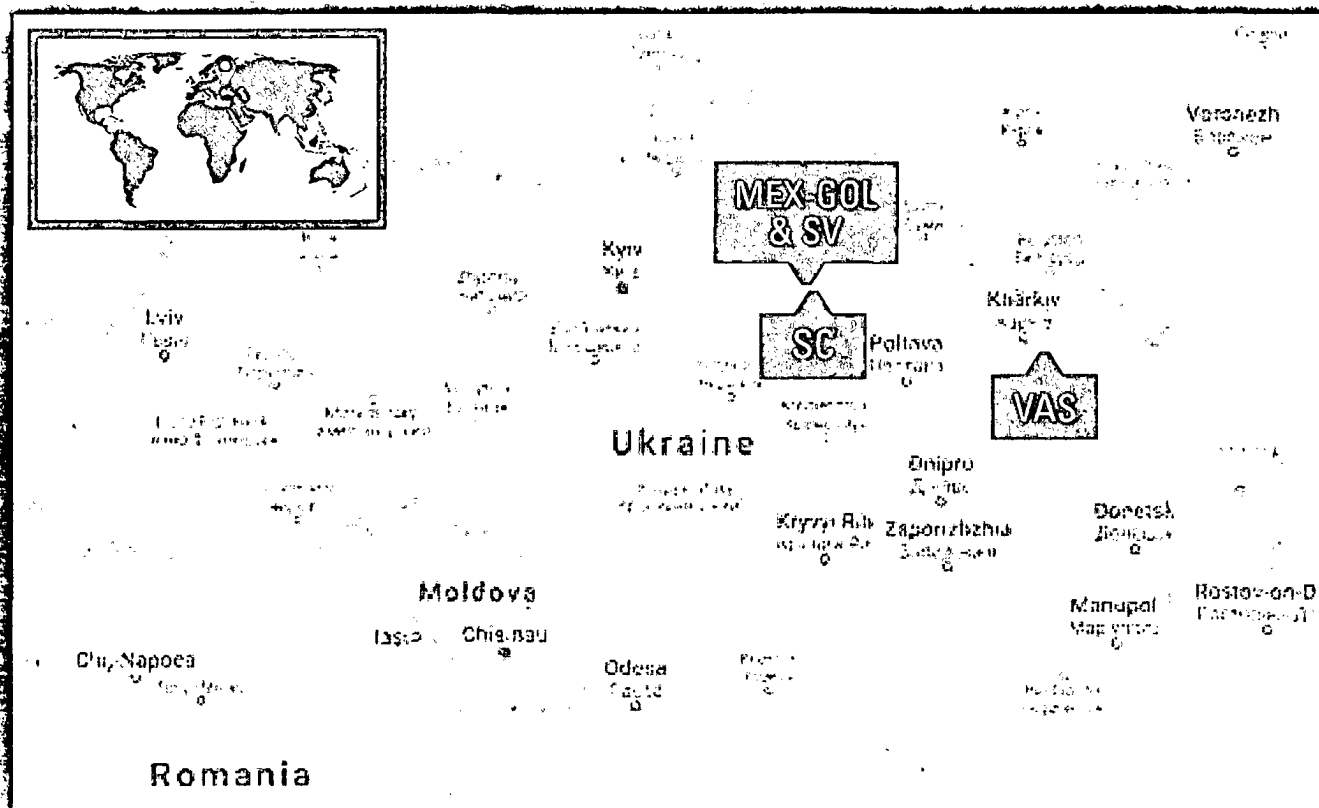
## Outlook

- Development work planned for 2021 at the MEX-GOL and SV fields includes: completing drilling operations of the SV-29 well; planning for a further new well or sidetracking of an existing well in the SV field; and upgrading of the gas processing facilities
- Development work planned for 2021 at the VAS field includes: planning for a new well to explore the VED prospect within the VAS licence area; and upgrading of the gas processing facilities
- Development work planned for 2021 at the SC field includes: planning for the drilling of the SVIST-4 well; and acquisition of 150 km<sup>2</sup> of 3D seismic
- 2021 development programme expected to be funded from existing cash resources and operational cash flow

### Why we have a strong future:

- We see a growth market ahead in Ukraine as domestic demand expands
- We have a significant reserves base
- We aim for a production to reserves ratio of 7% (currently at 3%)
- We apply our skills and technology to enable us to produce at low cost
- We place great emphasis on safety and environmental awareness, and we design our processes to achieve accident-free operations
- We have no debt and sufficient funding resources and contingency plans to deliver our near-term plans
- We apply rigorous selection criteria when investigating new business opportunities

# Where We Operate



## MEX-GOL & SV Fields

Our licences for the MEX-GOL and SV fields cover an area of 253 km<sup>2</sup>. The remaining 2P reserves are 46.3 MMboe, with 3C contingent resources of 25.3 MMboe.

## VAS Field

The VAS licence covers an area of 33.2 km<sup>2</sup> and has remaining 2P reserves of 2.7 MMboe and 3C contingent resources of 0.6 MMboe, while prospective resources in the VED block are estimated at 7.7 MMboe.

## SC Field

The SC licence covers an area of 97 km<sup>2</sup>, and while 2P reserves are yet to be assessed, C1 and C2 reserves of 38 MMboe under Ukrainian classification (DKZ) are attributable to the licence.

Working Interest %  
**100**

2P Reserves MMboe  
**46.3**

Working Interest %  
**100**

2P Reserves MMboe  
**2.7**

Working Interest %  
**100**

2P Reserves MMboe  
**0**

# Our Marketplace – Ukraine

## Why we operate exclusively in Ukraine:

- Improved fiscal and economic conditions in Ukraine
- Reasonable stability in the Ukrainian currency, reasonably stable rate of inflation, international market-based hydrocarbon prices and subsoil taxes trending lower
- Improvements in the Ukrainian regulatory procedures in the oil and gas sector
- Encouraging recent legislation for the oil and gas sector in Ukraine, demonstrating the Ukrainian Government's stated intention to promote and support the domestic oil and gas production industry

## Resource size

Ukraine 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.

## Domestic market dynamics

Ukraine remains a net importer of gas, with consumption of approximately 30 Bm<sup>3</sup> per year, of which only around two thirds is met by domestic production.

The offtake of our gas production has previously been by industrial consumers within the industrial segment of the market, but completion of the liberalisation of the gas market in Ukraine is opening up to us the Household and Heat and Electricity market segments. This liberalisation will also drive convergence of prices for industrial and household consumers.

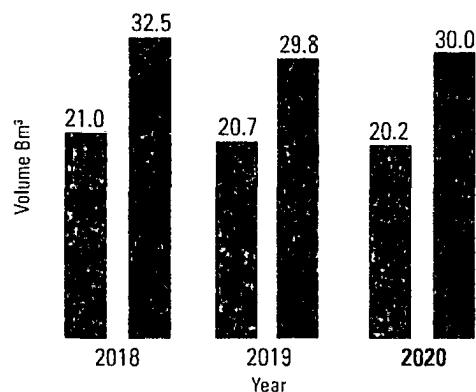
## Regulatory environment

The regulatory environment in Ukraine has steadily improved in recent years, and has importantly included reductions in production-related taxes, which were introduced from 2018, as detailed further in the Finance Review.

## Licensing regime

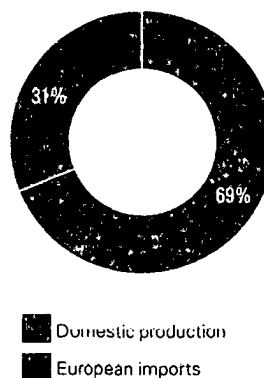
Electronic auctions of oil and gas licences were introduced by the Ukrainian Government and State Geological Survey of Ukraine in 2018, increasing transparency in licence competition and awards.

Domestic production and consumption, Bm<sup>3</sup>



- Domestic production
- Domestic consumption

Supply of Ukrainian gas market



- Domestic production
- European imports

# Chairman's Statement



**Chris Hopkinson**  
Chairman

*“The Group delivered a solid financial performance for the year, despite the higher production levels being offset by a lower average gas price during the year, as a result of weakened European gas prices”*

I am delighted to present the 2020 Annual Report and Financial Statements. While 2020 was an unprecedented year globally as a result of the COVID-19 pandemic, I am pleased to report that the Group has not been significantly affected on an operational level, and has achieved a robust performance despite the backdrop.

The Group has continued to make good progress in the development of the MEX-GOL, SV and VAS gas and condensate fields in north-eastern Ukraine, and has delivered a solid financial performance during the year. Drilling of the SV-54 development well was successfully completed and brought on production in May 2020, while the SV-25 appraisal well was spudded in July 2020 and completed and brought on production in Q1 2021.

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

Aggregate average daily production from the MEX-GOL, SV and VAS fields during 2020 was 4,541 boepd, which compares favourably with an aggregate daily production rate of 4,263 boepd during 2019, an increase of approximately 6.5%.

The Group delivered a solid financial performance for the year, despite the higher production levels being offset by a lower average gas price during the year, as a result of weakened European gas prices. During 2020, the Group achieved a net profit of \$3.2 million (2019: \$12.2 million) despite the weak gas prices, while cash generated from operations during the year was steady at \$23.8 million (2019: \$24.7 million), predominantly due to the higher production rates increasing non-cash depreciation, depletion and amortisation (DD&A).

The fiscal and economic environment in Ukraine remains stable, despite the effects of the COVID-19 pandemic resulting in a contraction in GDP and an increase in the rate of inflation, and recently Ukrainian Hryvnia exchange rates have been steady. Nevertheless, future fiscal and economic uncertainties remain in the Ukrainian market and we continue to be vigilant.

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

The deregulation of the gas supply market, supported by electronic gas trading platforms and improved pricing transparency, has meant that the market gas prices in Ukraine now broadly correlate with the imported gas prices. During 2020, gas prices trended lower, reflecting a similar trend in European gas prices, and were lower than in 2019. Similarly, condensate and LPG prices were also lower by comparison with last year. However, prices have improved in 2021 to date.

## Arkona Acquisition

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, subject to satisfaction of certain conditions. Arkona



holds a 100% interest in the Svystunivsko-Chervonolutskyi ("SC") exploration licence in north-eastern Ukraine, some 15 km east of the SV field. The SC licence was granted in May 2017, with a duration of 20 years, and is prospective for gas and condensate. As with the productive reservoirs in the SV field, the prospective reservoirs in this licence are Visean, at depths between 4,600 and 6,000 metres. However, NJSC Ukrnafta, the majority state-owned oil and gas producer, issued legal proceedings against Arkona, in which NJSC 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 NJSC 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 can be found in the Company's announcements dated 3 July 2020, 31 July 2020, 30 September 2020, 23 November 2020 and 11 February 2021.

With these legal issues now resolved, the Group has recommenced planning for the development of this licence, and a new well is planned for later this year.

#### **COVID-19 Pandemic**

We continue to closely monitor the volatility in global financial markets, and the implications on the operational, economic and social environment caused by the COVID-19

pandemic, coupled with the weakened hydrocarbon prices. As of the date hereof, there has been no operational disruption linked to the COVID-19 pandemic, and no material impact is currently envisaged on the Group's prospects. However, the Board and management remain acutely aware of the risks and are taking action to mitigate them, where possible, not only to protect our staff and other stakeholders, but also to minimise any potential disruption to our business. We have taken steps to continually monitor the health of our operational staff, including temperature checks for such staff at the commencement of each shift, as well as investing in technology to enable many staff to work from remote locations. We continue to reassess our medium-term forecasts based on current pricing and are highly confident we have the resources to deliver on our plans. Of course, we cannot be certain of the duration of the pandemic's impact but will remain focused on monitoring and protecting our business through the period of uncertainty. In protecting our stakeholders' interests, we are conscious of our wider obligations to the communities, and country, in which we operate. Accordingly, as previously announced, in 2020 we acted, alongside other corporate entities in Ukraine, to directly acquire critical equipment and supplies from Chinese suppliers to donate to the Ukrainian state to assist its efforts to manage the pandemic in Ukraine. Our monetary contribution of \$2 million to this initiative is reflected in the results for the year.

#### **Outlook**

While there are still challenges in the business environment in Ukraine, the situation is relatively stable despite the COVID-19 outbreak. Following the steady operational performance during 2020, and the increased production output during the year, we are looking forward to the results of the SV-29 development well, which are expected in the fourth quarter of 2021. We are also looking forward to achieving further successes in the development activities planned for 2021 and delivering a steadily increasing production and revenue stream in the future.

In conclusion, on behalf of the Board, I would like to thank all of our staff for the continued dedication and support they have shown during the year and especially in the midst of the COVID-19 pandemic.

**Chris Hopkinson**  
Chairman

# Chief Executive's Statement



**Sergii Glazunov**  
Chief Executive Officer

*“Overall production continued its upward trend during the year, achieving record levels for the Group and being approximately 6.5% higher than in 2019”*

The Group continued to make good progress at its Ukrainian fields during 2020, with development activity at the MEX-GOL and SV fields including successes with the drilling of the SV-54 development well, which came on production in May 2020, and the SV-25 appraisal well, which came on production in February 2021.

Work continued on the planning of an upgrade to the gas processing facilities, as well as work on upgrades to the flow-line network and remedial activity on existing wells.

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 gas processing facilities, flow-line network and other infrastructure are underway.

Overall production continued its upward trend during the year, achieving record levels for the Group and being approximately 6.5% higher than in 2019, with a substantial boost in May 2020, when the SV-54 well came on production.

## Production

The average daily production of gas, condensate and LPG from the MEX-GOL, SV and VAS fields for the year ended 31 December 2020 are shown below.

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

The Group's average daily production for the period from 1 January 2021 to 26 March 2021 from the MEX-GOL and SV field was 18.1 MMscf/d of gas, 634 bbl/d of condensate and 239 bbl/d of LPG (4,072 boepd in aggregate) and from the VAS field was 2.5 MMscf/d of gas and 28 bbl/d of condensate (499 boepd in aggregate).

## 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 the 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 2020, a total of 461,321 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 3,451,816 without a Lost Time Incident. No environmental incidents were recorded during the year

## Operations

Notwithstanding the impact of the COVID-19 pandemic during 2020, over recent periods, there have 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, and this has given the Board confidence to continue

Field production	Gas (MMscf/d)		Condensate (bbl/d)		LPG (bbl/d)		Aggregate boepd	
	2020	2019	2020	2019	2020	2019	2020	2019
MEX-GOL & SV	17.6	14.8	640.6	577.8	295.3	274.4	3,960	3,391
VAS	2.9	4.4	32.2	61.9	-	-	581	872
Total	20.5	19.2	672.8	639.7	295.3	274.4	4,541	4,263

the Group's development programme at its Ukrainian fields during 2020. However, lower realised gas prices impacted revenues, following a general decline in gas prices in Europe.

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

At the MEX-GOL and SV fields, the drilling of the SV-54 development well was completed to a final depth of 5,322 metres. One interval, at a drilled depth of 5,303 – 5,308 metres in the B-23 Visean formation, was perforated, and after successful testing the well was hooked up to the gas processing facilities in May 2020. In January 2021, additional intervals at drilled depths of 5,143 – 5,146, 5,125 – 5,155 and 5,180 – 5,186 within the B-22 Visean formation were perforated. The well is currently producing at approximately 1.1 MMscf/d of gas and 25 bbl/d of condensate (212 boepd in aggregate).

In February 2021, the SV-25 appraisal well was completed, 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 B-22 Visean formation was perforated, and after successful testing, the well was hooked up to the gas processing facilities. The well is currently producing at approximately 1.9 MMscf/d of gas and 80 bbl/d of condensate (423 boepd in aggregate).

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

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

In March 2019 (as set out in the 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

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 initial conditions, a second payment of \$2.1 million (net of an indemnity liability) has been paid, and the balance of the consideration is subject to the remaining conditions. 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 km<sup>2</sup>, 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 are Visean, at depths between 4,600 and 6,000 metres.

According to the recorded information on the Ukrainian State Balance of Natural Resources as at 1 January 2020, the licence has hydrocarbon reserves in the category of C<sub>1</sub> and C<sub>2</sub> under the Ukrainian

# Chief Executive's Statement CONTINUED

classification, DKZ, of approximately 38.0 MMboe (4.9 Bm<sup>3</sup> of gas and 0.86 Mtonnes of condensate). It should be noted, however, that while the Group's review of existing technical data for the licence is considered supportive of such assessment of hydrocarbon resources, such hydrocarbon resources have not been verified by an independent reserves assessor and do not correspond to the SPE/WPC/AAPG/SPEE Petroleum Resources Management System ("PRMS") standard for classification and reporting.

However, NJSC Ukrnafta, as claimant, issued legal proceedings against Arkona, as defendant, in which NJSC Ukrnafta claimed that irregular procedures were adopted in the grant of the SC licence to Arkona in May 2017. NJSC Ukrnafta was the holder of a previous licence over this area which expired prior to the grant of the SC licence. In early July 2020, the First Instance Court in Ukraine announced a ruling in favour of NJSC Ukrnafta, which found that the grant of the SC licence was irregular, which would mean the licence is invalid. Arkona filed an appeal in the Appellate Administrative Court in Kyiv, which was determined in favour of Arkona in September 2020, as was a final appeal to the Supreme Court of Ukraine determined in February 2021. Further information can be found in the announcements dated 3 July 2020, 31 July 2020, 30 September 2020, 23 November 2020 and 11 February 2021.

With the resolution of these legal issues, the Group has re-commenced planning for the development of this licence, which includes the acquisition of 150 km<sup>2</sup> of 3D seismic and drilling of a new well, SVYST-4, both of which are planned to start later this year.

## Outlook

During 2021, the Group will continue to develop the MEX-GOL, SV and VAS fields, as well as progressing the development planning for the SC licence. At the MEX-GOL and SV fields, the development programme includes continuing the drilling operations on the SV-29 development well, planning for a further well or sidetracking of an existing well in the SV field, investigating workover opportunities for other existing wells, installation of further compression equipment, further upgrading of the gas processing facilities and flow-line network, and remedial and upgrade work on existing wells, pipelines and other infrastructure.

At the VAS field, a workover of the VAS-10 well has recently been completed to access an alternative production horizon, planning for the proposed new well to explore the VED prospect within the VAS licence area is continuing, and upgrades to the gas processing facilities, pipeline network and other infrastructure are planned.

Ongoing legislative reforms and the general stability in the business climate in Ukraine are encouraging and supportive of the independent oil and gas producers in Ukraine.

Finally, I would like to add my thanks to all of our staff for the continued hard work and dedication they have shown over the course of the year, and to especially recognise their continuing efforts and professionalism during the COVID-19 pandemic.

**Sergii Glazunov**  
Chief Executive Officer

# Focus for Growth

We believe there is great potential in Ukraine's market, and we intend to grow steadily and strongly. Looking forward over the next three to five years, we are optimistic about our growth prospects. Here are the key reasons why:

## 1. Demand for gas forecast to grow globally and in Ukraine

Natural gas emits less pollution than other fossil fuels. In a future of tougher environmental regulation, it is the only fossil fuel whose share in global energy consumption is forecast to grow. By 2025, gas is expected to become the world's second largest source of energy, converging with oil by 2040. The average annual growth rate is forecast to be around 2%.

Only approximately two-thirds of Ukraine's gas demand is domestically produced with prices therefore tending to follow the prices in Europe. The gas market in Ukraine is currently being liberalised, which will allow local oil and gas producers greater access to, and effectively increase, our market.

## 2. A steadily improving situation in Ukraine

Notwithstanding the recent impact of the COVID-19 pandemic, the fiscal and economic situation in Ukraine has been improving for a number of years, with modest rates of inflation, lower exchange rate volatility, and growing GDP.

## 3. Investing in the future

Having successfully grown our resource base, the Group has extensive and capital-intensive development plans in place and in progress, including drilling new wells, upgrading infrastructure and equipment, and introducing innovative new technology in our operational activities. Given that we have 100% ownership of our assets, we have the ability to maintain tightly monitored contingency planning and can promptly modify schedules and plans should future economic and operational realities dictate. At the same time, we take a highly discerning approach to selecting new business opportunities. We are also investing in our people, building a strong performance-oriented culture, with high productivity.

## 4. Large and growing reserves

Through careful and incremental development of our fields, our proved plus probable (2P) reserves have grown to nearly 60 Mboe, and with our recent acquisition of the SC field, we aim to prove up additional reserves.

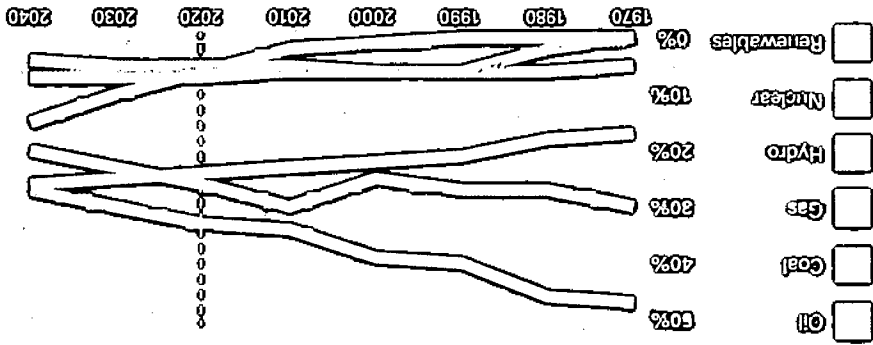
## 5. A disciplined operator

We work in a carefully structured way. We are focused on implementing projects on time and on budget, through the use of optimal technological solutions and rigorous task management. A disciplined and detailed budgeting process is essential to the cost forecasting and performance discipline we pursue. We have a very strong QHSE record. Our continuous improvement system (targeting employee initiative feedback and refinement) means we are focused on getting better at what we do, day by day, and year by year. As a result, we have the ability to produce economically in lower oil or gas price environments.

## 6. Take nothing for granted

Rigorous financial and risk planning reduces our exposure to external factors. We always ensure capital is available for our planning horizon. We maintain a discerning eye for potential new business opportunities and acquisitions, although we ensure that our selection criteria are stringent and challenging. We manage production levels to preserve reserve performance. Our growth strategy is measured, disciplined and designed for challenging but opportunity-rich times.

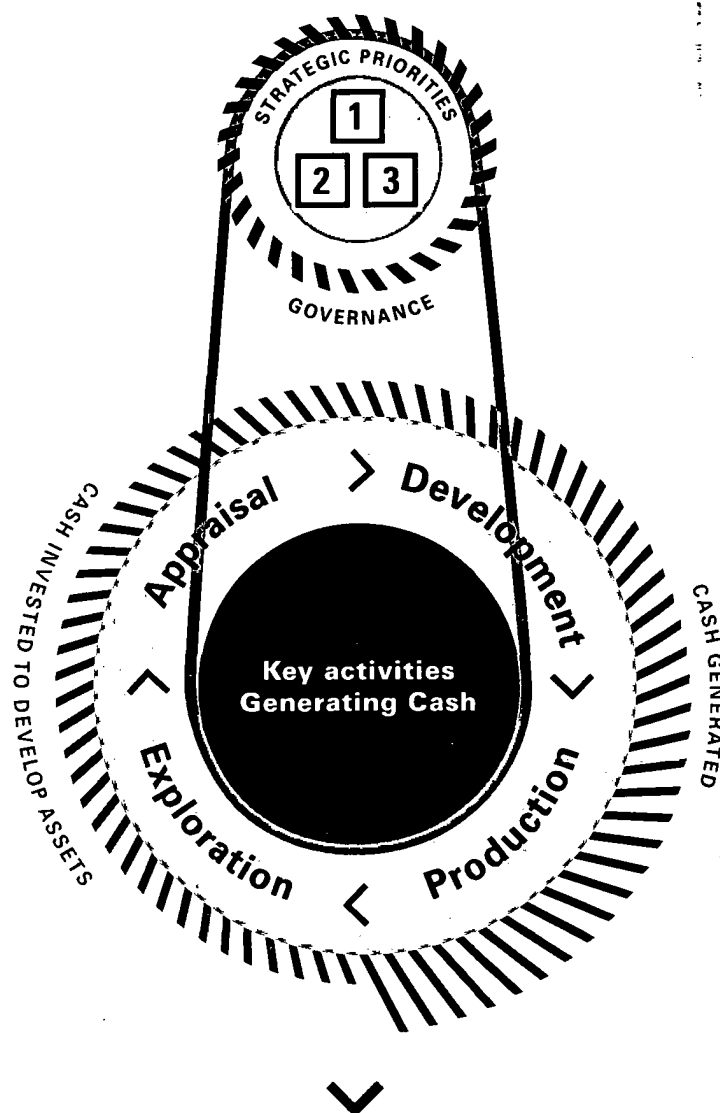
Shares of primary energy



## Between 2016 and 2020:

- Total production increased from 0.68 MMBboe to 1.66 MMBboe
- Revenue grew from \$25.7 million to \$47.3 million
- Operating margin increased from 9% to 21%
- Cash reserves more than tripled from \$20 million to \$61 million

# 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 50 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 our 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 or operational 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 hydrocarbon 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

### 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, exploit 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 targets:

### Operating safely and responsibly

- Adopt and exceed industry standards
- Embed corporate and social responsibility process throughout business organisation
- Operating a Near Miss system of reporting

### Strong and stable governance

- Adhere to QCA Code and institutional shareholder body guidance

### Rigid operating financial and risk planning

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

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

## 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 risks:

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

# 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 2020. 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 well-being 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 cooperate 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 (materials for repair works, funding of school meals) and youth sports, as well as the repair of roads and local infrastructure. More recently, we contributed \$2 million to fund procurement of medical equipment and supplies for donation to the Ukrainian state and charitable foundations to aid its 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.

### Streamlined Energy and Carbon Reporting ("SECR")

We are 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 and form of "self-reporting" for our global operations

This initiative is intended to:

- disclose the environmental-related data currently collected, including: energy consumed, water consumed, emissions and waste generated (in natural units and relative to volumes of extracted gas);
- determine any additional applicable indicators to be added during 2021, for example: natural gas and solid fuel consumed for heating, compressors and other equipment; diesel fuel used in diesel generators; consumption of gasoline and diesel in vehicles, etc.;
- determine potential benchmarks; and
- determine the reporting frequency.

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



#### **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 adhere to the Quoted Companies Alliance Corporate Governance Code 2018 ("QCA Code") to ensure clearly defined governance procedures within our business.

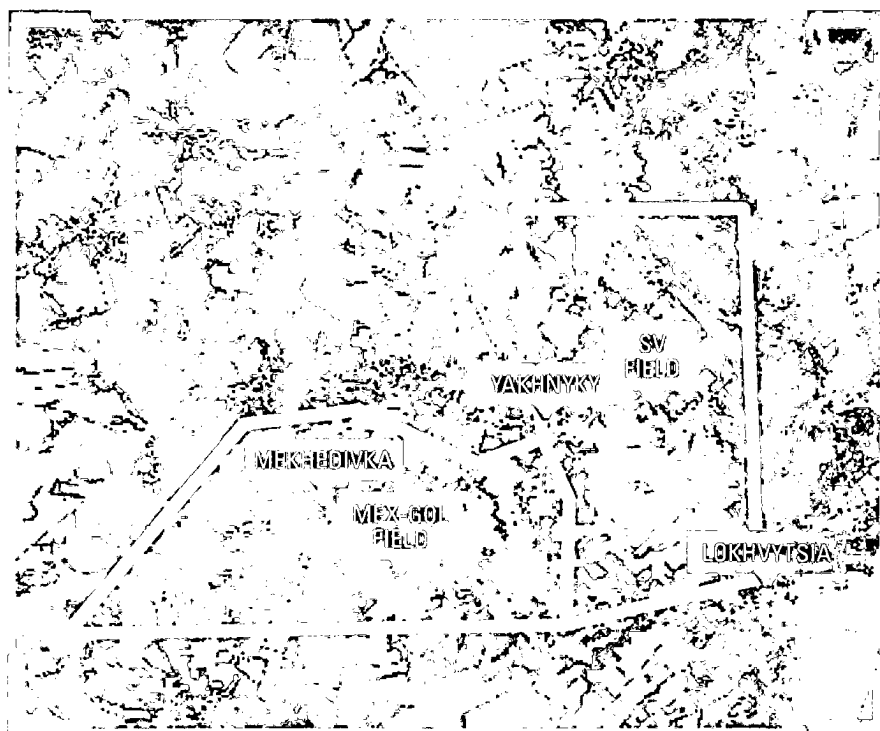


# Overview of Assets

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 2040 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 km<sup>2</sup>, 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 Visean 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.

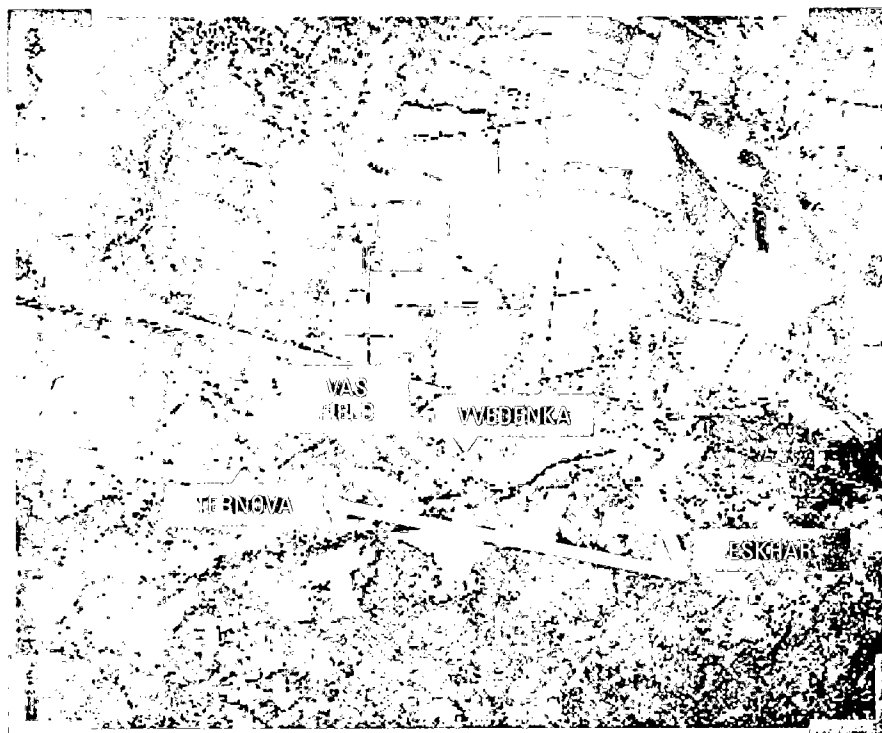
**100%**  
WORKING INTEREST

**253 km<sup>2</sup>**  
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 km<sup>2</sup> 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.

The Group acquired this project in July 2016.

### 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 Bashkiran, Serpukhovian and Visean age.

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

### Reserves

The fields have 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 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

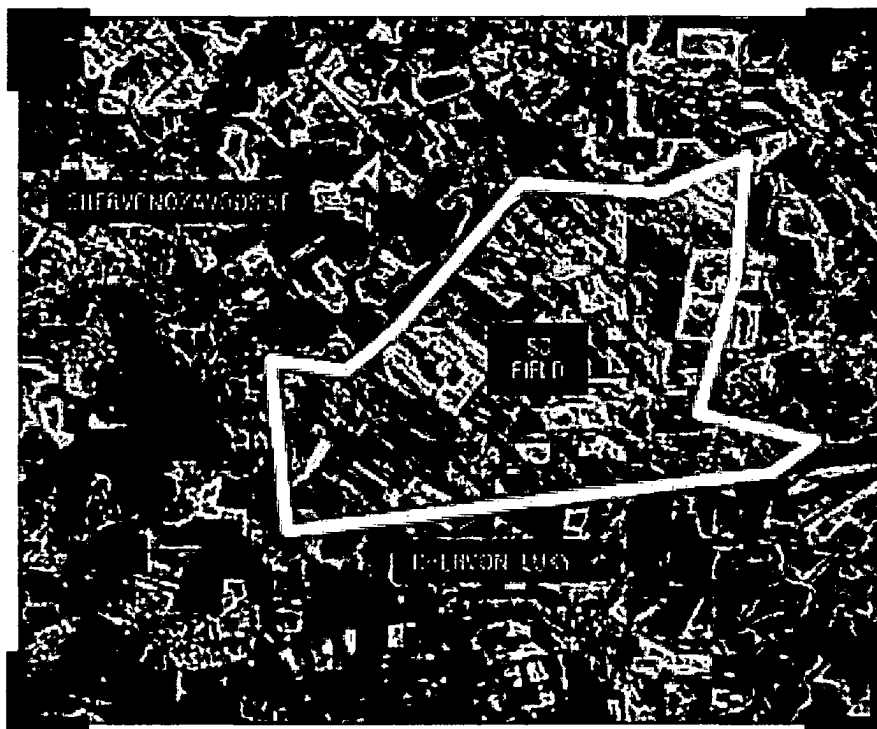
**33.2 km<sup>2</sup>**  
COMBINED LICENCES AREA

**3.1 MMboe**  
2P RESERVES

## Overview of Assets CONTINUED

### SC field

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



#### Production Licence

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

The licence extends over an area of 97 km<sup>2</sup>, 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 depth 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 area since then, although none of these wells are currently on production.

According to the recorded information on the Ukrainian State Balance of Natural Resources as at 1 January 2020, the licence has hydrocarbon reserves, in the category of C<sub>1</sub> and C<sub>2</sub> under the Ukrainian classification, DKZ, of approximately 38.0 MMboe (4.9 Bm<sup>3</sup> of gas and 0.86 Mtonnes of condensate). It should be noted, however, that while the Group's review of existing technical data for the licence is considered supportive of such assessment of hydrocarbon resources, such hydrocarbon resources have not been verified by an independent reserves assessor and do not correspond to the SPE/WPC/AAPG/SPEE Petroleum Resources Management System ("PRMS") standard for classification and reporting.

**100%**  
WORKING INTEREST

**97 km<sup>2</sup>**  
LICENCE AREA

# 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 2020, the Group has produced 3.7 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 <sup>3</sup>	218.3 Bscf / 6.2 Bm <sup>3</sup>	256.5 Bscf / 7.3 Bm <sup>3</sup>
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 <sup>3</sup>	38.3 Bscf / 1.08 Bm <sup>3</sup>	105.9 Bscf / 3.00 Bm <sup>3</sup>
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 2020, 0.5 MMboe were produced from the field.

The VAS Report estimates 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 <sup>3</sup>	15,098 MMscf / 427 MMm <sup>3</sup>	18,816 MMscf / 533 MMm <sup>3</sup>
Condensate	205 Mbbl / 25 Mtonne	346 Mbbl / 42 Mtonne	401 Mbbl / 48 Mtonne
Total	1.895 MMboe	3.145 MMboe	3.890 MMboe

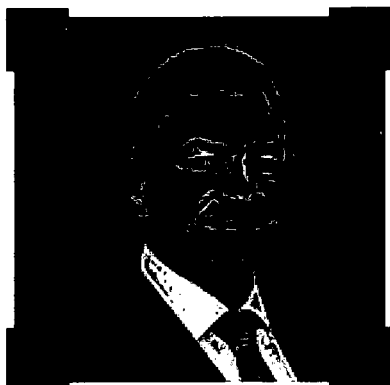
The VAS Report estimates the Contingent Resources as at 31 December 2018 in the VAS field as follows:

	Contingent Resources (1C)	Contingent Resources (2C)	Contingent Resources (3C)
Gas	0	0	2,912 MMscf / 83 MMm <sup>3</sup>
Condensate	0	0	74 Mbbl / 9 Mtonne

The VAS Report estimates 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 <sup>3</sup>	38,079 MMscf / 1,078 MMm <sup>3</sup>	62,293 MMscf / 1,764 MMm <sup>3</sup>	41,291 MMscf / 1,169 MMm <sup>3</sup>

# Finance Review



**Bruce Burrows**  
Finance Director

*“Cash and cash equivalents held at 31 December 2020 were \$61.0 million (2019: \$62.5 million)”*

Despite the challenges during the year, the Group made a net profit of \$3.2 million (2019: \$12.2 million).

Gross profit for the year was \$15.7 million (2019: \$23.5 million). The 33% decrease in gross profit year-on-year is almost entirely a result of significantly weakened gas prices in the year. Average gas realisations in the period were down 38% at \$136/Mm<sup>3</sup> (UAH3,618/Mm<sup>3</sup>), with condensate and LPG sales also down by 21% and 16% at \$46/bbl and \$46/bbl respectively (2019: \$219/Mm<sup>3</sup> (UAH5,729/Mm<sup>3</sup>), \$58/bbl and \$55/bbl respectively).

Revenue for the year, derived from the sale of the Group's Ukrainian gas, condensate and LPG production, was \$47.3 million (2019: \$55.9 million). Despite the gas price-driven fall in revenue, the cash generated from operations was only down 3.8% at \$23.8 million (2019: \$24.7 million), predominantly as a result of higher non-cash DD&A of \$12.7 million compared to \$10.2 million in 2019, less interest income recorded in the operating profit (\$1.5 million compared to \$4.8 million in 2019), and a \$2.6 million draw of 24 Mm<sup>3</sup> of gas from inventory in the period compared to a \$3.2 million build to inventory in 2019.

The Group's financial performance in 2020 was shaped largely by two factors: the significant drop in average gas realisations (which had started in 2019) materially affecting revenue but partly mitigated by the record level of gas production, and the sale of gas from storage.

During the period from 1 January 2021 to 26 March 2021, the average realised gas, condensate and LPG prices were \$232/Mm<sup>3</sup> (UAH6,489/Mm<sup>3</sup>), \$66/bbl and \$64/bbl respectively.

The significantly lower average realised gas price had the greatest impact on the Group's 2020 performance. Since the deregulation of the gas supply market in Ukraine in October 2015, the market price for gas has broadly correlated to the price of imported gas, which generally reflects trends in European gas prices. Gas prices are also subject to seasonal variation. During the 2020 year, gas prices were depressed, as a combined result of lower international prices reducing the price of imported gas, and the unseasonably warm 2019/20 winter. Condensate and LPG prices were also lower than in 2019. During 2021 to date, however, there has been a sustained recovery in prices (a function of a more general recovery in European commodity prices, as well as Ukraine experiencing one of the coldest winters in a decade).

Cost of sales for the 2020 year was marginally lower at \$31.5 million (2019: \$32.4 million). While broadly consistent with last year, there were some significant movements within this total: depreciation of property plant and equipment was 26% higher at \$11.5 million (2019: \$9.1 million) as a result of higher levels of production; production taxes declined by 19% as a result of reduced gas revenues, in turn a function of the reduced gas prices as noted above; a 42% decrease in rent expense, a function of lower well profitability in the period despite increased production; and staff costs increased by 31% as a function of a 2% increase in the number of staff, in combination with salary inflation.

The subsoil tax rates applicable to gas production were stable during the period at 29% for gas produced from deposits at depths shallower than 5,000 metres and 14% for gas produced from deposits deeper than 5,000 metres, but reductions in the subsoil rates applicable to new wells and to condensate production were applicable, under which (i) for new wells drilled after 1 January 2018, the subsoil tax rates were reduced from 29% to 12% for gas produced from deposits at depths shallower than 5,000 metres and from 14% to 6% for gas produced from deposits deeper than 5,000 metres for the period between 2018 and 2022, and (ii) with effect from 1 January

2019 and applicable to all wells, the subsoil tax rates for condensate were reduced from 45% to 31% for condensate produced from deposits shallower than 5,000 metres and from 21% to 16% for condensate produced from deposits deeper than 5,000 metres.

Administrative expenses for the year were marginally higher at \$7.8 million (2019: \$7.4 million), primarily as a result of: a 46% increase in consultancy fees mainly due to legal and advisory costs associated with the acquisition activity in the year; a 6% increase in payroll and related taxes, consistent with the increased staff level and salary inflation noted above; all partially mitigated by a 30% decrease in other expenses primarily in relation to decreased costs for managing gas transportation and storage, and marketing.

Other losses in the year reduced by 22% in the period, a net effect of: a foreign exchange gain in the period of \$0.3 million compared to a loss of \$1.5 million in 2019; no VAT credit in the period compared to the \$0.5 million charge in 2019; and the charitable donations of \$2.1 million (2019: nil) for the supply of COVID-19-related medical equipment for Ukrainian authorities and charitable foundations.

The tax charge for the year reduced by 65% to \$3.3 million (2019: \$9.6 million charge) mainly due to the decrease in profit before tax, and comprises a current tax charge of \$3.0 million (2019: \$4.8 million charge) and a deferred tax charge of \$0.3 million (2019: \$4.8 million charge).

A deferred tax asset relating to the Group's provision for decommissioning at 31 December 2020 of \$0.2 million (2019: \$0.3 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 at 31 December 2020 of \$2.9 million (2019: \$2.5 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 at 31 December 2020 of \$0.3 million (2019: \$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 at 31 December 2020 of \$0.2 million (2019: \$0.5 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 \$18.2 million reflects the investment in the Group's oil and gas development and production assets during the year (2019: \$17.7 million), primarily relating to the drilling of the SV-54 and SV-25 wells. The carrying value of the Group's assets was reviewed at the year end as a result of the significant drop in gas prices during the year, which did not result in any impairment of assets.

Cash and cash equivalents held at 31 December 2020 were \$61.0 million (2019: \$62.5 million). The Group's cash and cash equivalents balance at 29 March 2021 was \$60.9 million, held as to \$22.8 million equivalent in Ukrainian Hryvnia and the balance of \$38.1 million equivalent predominantly in US Dollars, Euros and British Pounds.

Between early 2014 and 2019, the Ukrainian Hryvnia devalued significantly against the US Dollar, falling from UAH8.3/\$1.00 on 1 January 2014 to UAH23.7/\$1.00 on 31 December 2019, which resulted in substantial foreign exchange translation losses for the Group over that period, and in turn adversely impacted the carrying value of the MEX-GOL and SV asset due to the translation of two of the Group's subsidiaries from their functional currency of Ukrainian Hryvnia to the Group's presentation currency of US Dollars. During 2020, global financial

markets became extremely volatile due to a combination of a significant fall, and then gradual recovery, in oil prices and the effects of the COVID-19 pandemic, and the Ukrainian Hryvnia weakened against the US Dollar with the exchange rate at 31 December 2020 being UAH28.3/\$1.00. The impact of this devaluation was \$15 million of foreign exchange losses (2019: \$12 million of foreign exchange gain). Further devaluation of the Ukrainian Hryvnia against the US Dollar may affect the carrying value of the Group's assets in the future.

Cash from operations has funded the capital investment during the 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 2021 and beyond. This is coupled with the fact that the Group is currently debt-free, and therefore has no debt covenants that may otherwise impede the ability to implement contingency plans if domestic and/or global circumstances dictate. This flexibility and ability to monitor and manage development plans and liquidity is a cornerstone of our planning, and underpins our assessments of the future. With cash resources at the end of the period of \$61 million, and annual running costs of less than \$8 million, the Group remains in a very strong position should any local or global shocks occur to the industry and/or the Group. In making this assessment, the Group has forecast future cash flows under severe but reasonably plausible downside scenarios.

The Company has recorded a credit of \$87.3 million, being the net change in credit loss allowance for loans issued to subsidiaries in its statement of profit or loss for the year ended 31 December 2020 (see Note 3 below). This credit was calculated following a

review of the underlying cash flow forecasts of the subsidiaries and is due to an increase in gas prices forecast and the termination of the proposed acquisition of PJSC Science and Production Concern Ukrnaftinvest. The Company has also recorded a loss of \$30.1 million, being the net change in credit loss allowance for shares in subsidiaries.

In 2020, after a Group restructuring, the Company transferred \$40 million from loans to subsidiaries to investments in subsidiaries as a result of the offsetting of payables for corporate rights, which did not impact the consolidated financial statements. Further information can be found in Note 19.

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 enable 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 2020 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	1,622,000 boe	0	UAH 256 (\$9.50)	UAH 533 million (\$19.8 million)
ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL
0	1,639,604 boe	0	UAH 256 (\$9.50)	UAH 642 million (\$23.8 million)

# COVID-19 Pandemic

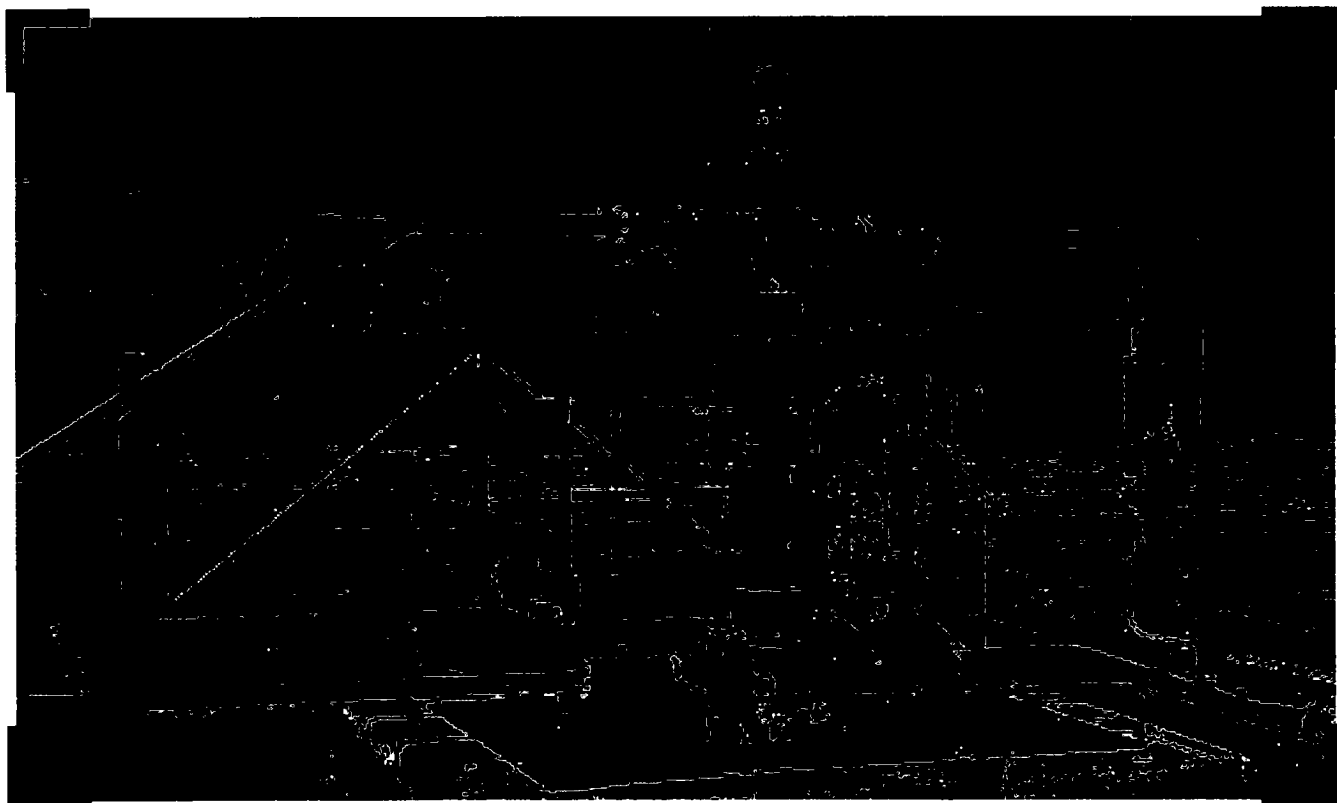
The COVID-19 pandemic has had an enormously detrimental effect on the lives of the world's population, disrupting every aspect of people's lives and livelihoods. The Group and its staff have, of course, been affected like much of the population, but to date, the Group has not suffered any operational 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 well-being 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, including:

- reorganising the working practices of offices and production facilities: office staff work from home, while production teams operate in the mode of three-week rotations. In order to facilitate these work modes, office staff have been supplied with all necessary devices and software to work remotely, while all necessary living conditions, including three meals daily, have been provided at the production facilities;

- nominated employees have been assigned to monitor colleagues' health and provide any aid needed to those who fall ill;
- a network of both regular and extraordinary information platforms has been created to keep staff updated on the COVID-19 situation and the prevention measures being taken (such as Viber-groups, regular mailings and status meetings);
- the conditions of support for the Group's medical insurance provider were reviewed and communicated in order to provide necessary medical support for COVID-19 cases for all staff;
- additional personal protection devices for all employees have been purchased, such as masks, respirators and sanitisers;
- temperature checks are performed for all operational staff at the commencement of each shift;

- protective measures have been taken, including:
  - installation of automatic hand sterilisers;
  - disinfecting and sanitising of carpets;
  - installation of a decontamination frame at site;
  - provision of epidemiological protection overalls;
  - provision of oxygen concentrators for work sites;
  - provision of thermometers, oxymeters and ultraviolet lamps;
- preparation of two isolation boxes for infected workers at production facilities;
- undertaking regular and thorough cleaning and disinfecting of all premises and corporate transport;
- undertaking in excess of 1,000 rapid COVID-19 tests on staff to screen for infection.





# Corporate Social Responsibility Overview

We believe in operating to top quartile ethical, safety and environmental standards, and we intend to make a positive impact wherever we work. Our quality, health, safety and environmental (“QHSE”) policies and performance are overseen by our Health, Safety and Environment Committee.

## 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, 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 (materials for repair works, funding of school meals) and youth sports, as well as the repair of roads and local infrastructure.

## 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 2018, our operations were re-certified as complying with international standards of occupational safety and health management systems, in particular, the State Standard of Ukraine ISO 9001:2015, State Standard of Ukraine OHSAS 18001:2010, and ISO 14001:2015.

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).

In 2020, we 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.

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.

## 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 (“QHSE”) policies.

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 DSTU ISO 14001:2006 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 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.

## Our QHSE policies

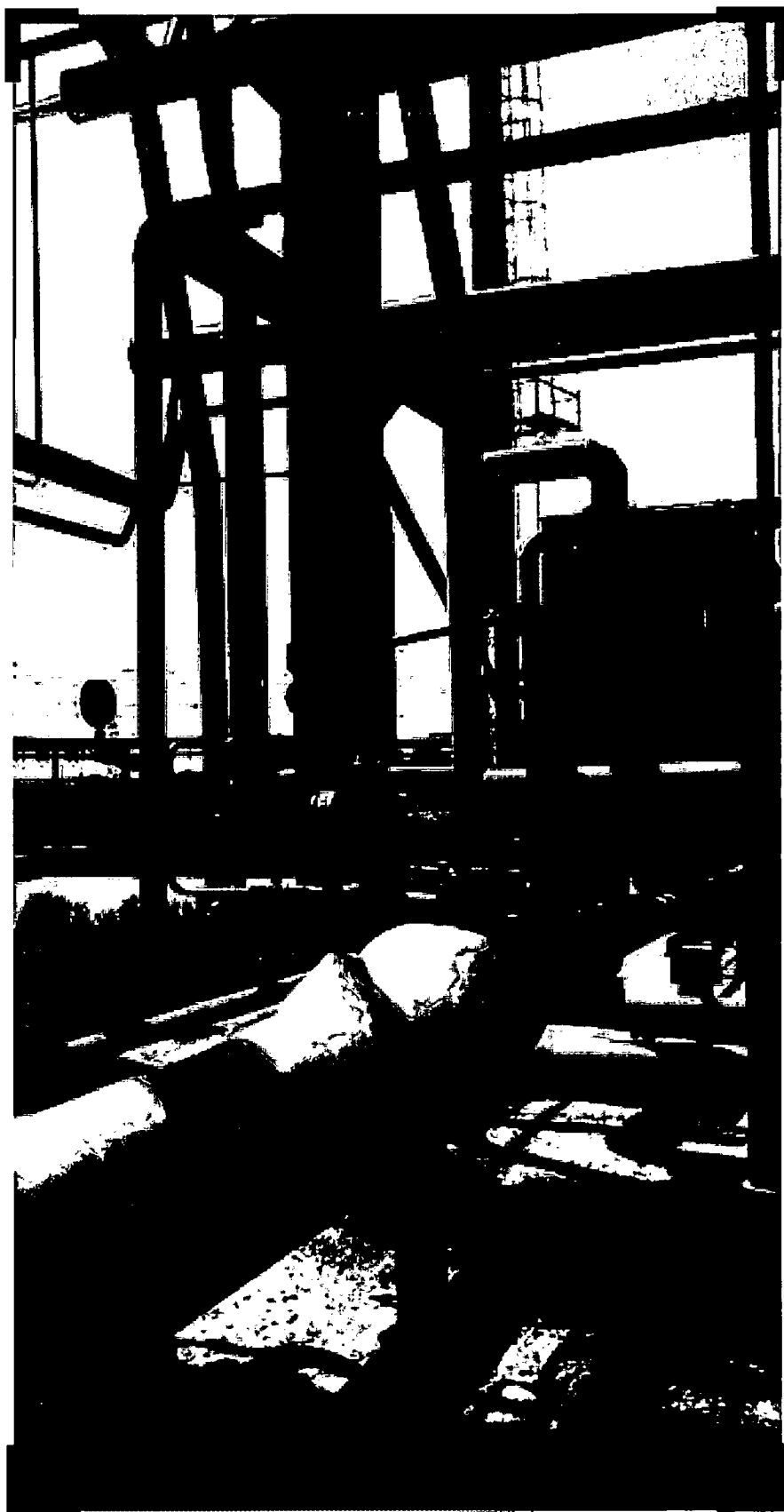
Our policies for quality, health, safety and environment protection focus on the following:

- 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.

# 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 a 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 QHSE risks is our 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.

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 mitigation factors are detailed in the following pages.

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

# Principal Risks and Uncertainties CONTINUED

Risk	Mitigation
<b>External risks</b>	
<b>Geopolitical environment in Ukraine</b>	
Although there have been some improvements in recent years, there has not been a final resolution of the political, fiscal and economic situation in Ukraine and its ongoing effects are difficult to predict and likely to continue to affect the Ukrainian economy and potentially the Group's business. While not materially affecting the Group's production operations, the instability has disrupted the Group's development and operational planning for its assets.	The Group continually monitors the market and business environment in Ukraine and endeavours to recognise approaching risks and factors that may affect its business. In addition, the involvement of Smart Holding (Cyprus) Limited, as an indirect major shareholder with extensive experience in Ukraine, is considered helpful to mitigate such risks.
<b>Climate change</b>	
Any near and medium-term continued warming of the planet can have potentially increasing negative social, economic and environmental consequences, generally globally and regionally, and specifically in relation to the Group. The potential impacts include: loss of market; and increased costs of operation through increasing regulatory oversight and controls, including potential effective or actual loss of licence to operate. As a diligent operator aware and responsive to its good stewardship responsibilities, the Group not only needs to monitor and modify its business plans and operations to react to changes, but also to ensure its environmental footprint is as minimal as it can practicably be in managing the hydrocarbon resources the Group produces.	The Group's plans 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 the accounting estimates.
<b>Operational and technical risks</b>	
<b>Quality, Health, Safety and Environment ("QHSE")</b>	
The oil and gas industry, by its nature, conducts activities which can cause health, safety, environmental and security incidents. Serious incidents can not only have a financial impact but can also damage the Group's reputation and the opportunity to undertake further projects. As evidenced by events in 2020, pandemics also pose a risk to operations, by potential illness and threat to life of employees and contractors, and the associated disruptions in staffing levels, operations and supply chain.	The Group maintains QHSE policies and requires that management, staff and contractors adhere to these policies. The policies ensure that the Group meets Ukrainian legislative standards in full and achieves international standards to the maximum extent possible. As a consequence of the COVID-19 pandemic, the Group is re-visiting processes and controls intended to ensure protection of all our stakeholders and minimise any disruption to our business. While possible to only a limited extent in field operations, we have invested in technology that will allow many staff to work just as effectively from remote locations.

Risk	Mitigation
<b>Industry risks</b>	
<p>The Group is exposed to risks which are generally associated with the oil and gas industry. For example, the Group's ability to pursue and develop its projects and development programmes depends on a number of uncertainties, including the availability of capital, seasonal conditions, regulatory approvals, gas, oil, condensate and LPG prices, development costs and drilling success. As a result of these uncertainties, it is unknown whether potential drilling locations identified on proposed projects will ever be drilled or whether these or any other potential drilling locations will be able to produce gas, oil or condensate. In addition, drilling activities are subject to many risks, including the risk that commercially productive reservoirs will not be discovered. Drilling for hydrocarbons can be unprofitable, not only due to dry holes, but also as a result of productive wells that do not produce sufficiently to be economic. In addition, drilling and production operations are highly technical and complex activities and may be curtailed, delayed or cancelled as a result of a variety of factors.</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>
<b>Production of hydrocarbons</b>	
<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 2016, the Group engaged external technical consultants to undertake a comprehensive review and re-evaluation study of the MEX-GOL and SV fields in order to gain an improved understanding of the geological aspects of the fields and reservoir engineering, drilling and completion techniques, and the results of this study and further planned technical work is being used by the Group in the future development of these fields. 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>
<b>Risks relating to further development and operation of the Group's gas and condensate fields in Ukraine</b>	
<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 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.</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 operational activities, the Group ensures that appropriate equipment and personnel is available for the operations, and that operational contractors are appropriately supervised. In addition, the Group performs a review of its oil and gas assets for impairment on an annual basis, and considers whether an assessment of its oil and gas assets by a suitably qualified independent assessor is appropriate or required.</p>

# Principal Risks and Uncertainties CONTINUED

Risk	Mitigation
<b>Drilling and workover operations</b>	
<p>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.</p>	<p>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.</p>
<b>Maintenance of facilities</b>	
<p>There is a risk that production or transportation facilities can fail due to inadequate maintenance, control or poor performance of the Group's suppliers.</p>	<p>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.</p>
<b>Financial risks</b>	
<b>Exposure to cash flow and liquidity risk</b>	
<p>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.</p>	<p>The Group maintains adequate cash reserves and closely monitors forecasted and actual cash flow, as well as short and longer-term funding requirements. The Group does not currently have any loans outstanding, internal financial projections are regularly made based on the latest estimates available, and various scenarios are run to assess the robustness of the liquidity of the Group. However, as the risk to future capital funding is inherent in the oil and gas exploration and development industry and reliant in part on future development success, it is difficult for the Group to take any other measures to further mitigate this risk, other than tailoring its development activities to its available capital funding from time to time.</p>
<b>Ensuring appropriate business practices</b>	
<p>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.</p>	<p>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.</p>

Risk	Mitigation
<b>Hydrocarbon price risk</b> <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 share price or any shareholder returns. Lower gas, condensate and LPG prices may not only decrease the Group's revenues per unit, but may also reduce the amount of gas, condensate and LPG which the Group can produce economically, as would increases in costs associated with hydrocarbon production, such as subsoil taxes and royalties. The overall economics of the Group's key assets (being the net present value of the future cash flows from its Ukrainian projects) are far more sensitive to long-term gas, condensate and LPG prices than short-term price volatility. However, short-term volatility does affect liquidity risk, as, in the early stage of the projects, income from production revenues is offset by capital investment.</p>	<p>The Group sells a proportion of its hydrocarbon production through long-term offtake arrangements, which include pricing formulae so as to ensure that it achieves market prices for its products, as well 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.</p>
<b>Currency risk</b> <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 UAH28.3/\$1.00 on 31 December 2020. This devaluation through to 2020 was a significant contributor to the imposition of the banking restrictions by the National Bank of Ukraine over recent years. In addition, the geopolitical events in Ukraine over recent years are likely to continue to impact the valuation of the Ukrainian Hryvnia against major world currencies. Further devaluation of the Ukrainian Hryvnia against the US Dollar will affect the carrying value of the Group's assets.</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>
<b>Counterparty and credit risk</b> <p>The challenging political and economic environment in Ukraine means that businesses can be subject to significant financial strain, which can mean that the Group is exposed to increased counterparty risk if counterparties fail or default in their contractual obligations to the Group, including in relation to the sale of its hydrocarbon production, resulting in financial loss to the Group.</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>
<b>Financial markets and economic outlook</b> <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 difficulties, and more particularly the events that have occurred in Ukraine over recent years. This has led to extreme foreign exchange movements in the Ukrainian Hryvnia, high inflation and interest rates, and increased credit risk relating to the Group's key counterparties.</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 risks that the Group faces as a result of these risks cannot be predicted and many of these are outside of the Group's control.</p>

# Principal Risks and Uncertainties CONTINUED

Risk	Mitigation
<b>Corporate risks</b>	
<b>Ukrainian production licences</b>	
<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 continuing, but this matter remains unresolved. In 2020, LLC Arkona Gas-Energy ("Arkona") faced a challenge from NJSC Ukrnafta concerning the validity of its SC production 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>
<b>Risks relating to key personnel</b>	
<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.</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.</p>

## Strategic Report Approval

The Strategic Report, which incorporates Highlights, Where We Operate, Our Marketplace – Ukraine, Chairman's Statement, Chief Executive's Statement, Focus for Growth, Business Model, Our Strategic Priorities, Statement under s172(1) Companies Act 2006, Overview of Assets, Overview of Reserves, Finance Review, COVID-19 Pandemic, Corporate Social Responsibility Overview and Principal Risks and Uncertainties, was approved by the Board on 30 March 2021 and signed on its behalf by:

**Chris Hopkinson**  
Chairman



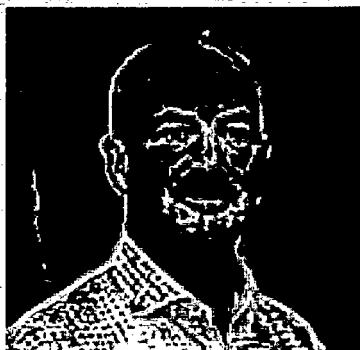
D/M/2021



## Governance

Board of Directors	32
Corporate Governance Statement	34
Directors' Report	37
Independent Auditors' Report	39

# Board of Directors



**Chris Hopkinson**  
Non-Executive Chairman

**A R H**

Chris Hopkinson was appointed as 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 Vice-President 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 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 Non-Executive Director in April 2011 and is a nominee of the Company's indirect majority shareholder, Smart Holding (Cyprus) Limited. He is currently Chief Executive Officer of PJSC Smart-Holding, 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 positions as Strategy and Corporate Development Director and Chairman of the Supervisory Board 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 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 First Deputy Chief Executive Officer and Chief Financial 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 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 Regulatory News section of the Company's website at [www.enwell-energy.com](http://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 it 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 Risk Committee that monitors the Group's business operations and identifies key risks that are faced. The Risk Committee maintains a Risk Register and Mitigation Plan that is formally reviewed and updated quarterly. The Risk Committee regularly reports to the Board on risk management and mitigation.

The Company is committed to maintaining the highest quality, health, safety and environmental ("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)	14/16
Sergii Glazunov	16/16
Alexey Pertin	0/16
Yuliia Kirianova	8/16
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), an Executive Director (Sergii Glazunov) and the Chief Technical Officer (Viktor Dudzych). 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)	2/2
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)	1/1
Chris Hopkinson	1/1
Sergii Glazunov	1/1
Viktor Dudzych	1/1

## 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 audiovisual 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 Investors and Regulatory News section of its website at [www.enwell-energy.com](http://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 2020.

## 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 (2019: \$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 26. 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 (2019: \$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 32.

## Substantial Shareholders

At 30 March 2021, 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 V Novynskyi.

## Going Concern Assessment

The Directors carefully monitor the situation with respect to the COVID-19 pandemic and maintain a significant level of flexibility to modify the Group's development plans as may be required to preserve cash resources, using base, low and high cases for liquidity management. Following a going concern review conducted in mid-March 2021, the Company has re-visited the cash forecast to consider a possible (but in the Company's view it constitutes a remote possibility) worst case scenario, being: a low case production profile; forward curve commodity prices being reduced by 20%; and all other costs being maintained at current levels with no reduction as would otherwise be possible. For these reasons, the Company continues to adopt the Going Concern Basis for preparing the consolidated financial statements.

## 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 financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 the 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 in conformity with the requirements of the Companies Act 2006 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 the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the 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

30 March 2021





# 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 2020 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 international accounting standards in conformity with the requirements of the Companies Act 2006; 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, which comprise: the consolidated and Company balance sheets as at 31 December 2020; 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.

### Our audit approach

#### Overview

#### Audit scope

- We conducted a full scope audit of the financial statements of the Group and the Company. Our audit work enabled us to obtain coverage of 100% of consolidated revenue and 100% of total assets for the Group.

#### Key audit matters

- Carrying value of investments in, and loans to, subsidiary undertakings (parent).
- Impact of COVID-19 (Group and parent).

#### Materiality

- Overall Group materiality: US\$759,000 (2019: US\$1,088,000) based on 5% of two-year average profit before tax adjusted for non-recurring items.
- Overall Company materiality: US\$1,372,000 (2019: US\$748,000) based on 1% of total assets.
- Performance materiality: US\$569,250 (Group) and 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.

#### Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, 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 preparation of 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. Audit procedures performed by the engagement team included:

- Discussions with management, 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 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 the 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.

# Independent Auditors' Report to the members of Enwell Energy plc CONTINUED

## Report on the audit of 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.

This is not a complete list of all risks identified by our audit.

Carrying value of oil and gas assets, which was a key audit matter last year, is no longer included because of absence of impairment indicators as at 31 December 2020. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><b>Carrying value of investments in, and loans to, subsidiary undertakings (parent)</b></p> <p>As disclosed in Notes 3 and 19 to the Annual Report and Financial Statements for the year ended 31 December 2020, the Company has a total investment in subsidiaries of US\$98 million comprising investment in shares and loans.</p> <p>The determination of whether an impairment or impairment reversal trigger exists can be judgemental. Management has identified indicators of a potential change in the carrying values of investments in subsidiaries and loans to subsidiary undertakings. Management considered the forecasted plans and expectations, and prepared discounted cash flows ("DCF") models.</p> <p>As at 31 December 2020, management estimated the recoverable amount of the investments in subsidiary undertakings to be US\$35.3 million, considering the recoverable amount of oil and gas assets in the Company's subsidiaries, while the net carrying amount of the loans to subsidiary undertakings increased to the recoverable amount of US\$62.8 million.</p> <p>As a result, the Company has recorded US\$57.1 million of reversal of impairment, being the net change in the impairment allowance for the investments in subsidiaries and loans issued to subsidiary undertakings in the Company's statement of profit or loss for the year ended 31 December 2020.</p> <p>We designated this matter as a key audit matter due to significant judgement involved in the process of estimation of the future discounted net cash flows generated by the subsidiaries operating in Ukraine, which are considered the primary sources of repayment on the loans and their impact on the above-mentioned balances.</p>	<p>To address the risk that carrying amount of investments in, and loans to, subsidiary undertakings as at 31 December 2020, may be misstated, we performed the following procedures:</p> <ol style="list-style-type: none"> <li>1. Discussed with management the key assumptions used;</li> <li>2. Reviewed the overall methodology for reasonableness applied in management's assessment of the recoverable amounts and verified the mathematical accuracy of the related DCF models;</li> <li>3. Assessed the assumptions used by management for reasonableness by agreeing or comparing them to external independent sources of reference, where it is possible and practical. We also recalculated the weighted average cost of capital using the inputs from the external sources;</li> <li>4. For the internally generated assumptions, we agreed the inputs used in the models to the approved budgets and management plans;</li> <li>5. Reviewed and agreed the terms of the restructured loan balances and investments to the respective agreements and other supporting documents;</li> <li>6. Tested the sensitivity analyses of key assumptions prepared by management.</li> </ol> <p>We concur with management's conclusion in respect of the carrying amount of investments in, and loans to, subsidiary undertakings as at 31 December 2020 and the net change in the impairment allowance recorded in the Company's statement of profit or loss for the year then ended.</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 2020, including the disclosure of applicable estimates and judgements.</p>

Key audit matter	How our audit addressed the key audit matter
<p><b>Impact of COVID-19 (Group and parent)</b></p> <p>As disclosed in the Strategic Report and the Annual Report and Financial Statements for the year ended 31 December 2020, the management continues to closely monitor the volatility in global financial markets, and the implications on the operational, economic and social environment caused by the COVID-19 pandemic, coupled with the weakened hydrocarbon prices.</p> <p>The COVID-19 pandemic and its impact on the business, economic and social environment around the world, are still unfolding. Given the state of disruption and uncertainty in both the UK and Ukraine, it is difficult to predict the further impact of the pandemic on the Group and its operations.</p> <p>The Group has made an assessment of the impact of these factors on its operations. Based on management's review of operations, contingency planning and working capital projections, management believe the Group and Company are adequately positioned to maintain the continuity of operations and have sufficient financial resources to withstand any potential implication of the pandemic including downturn in revenues.</p> <p>Given the uncertainties and potential implications on the global economy, and hence the Group and Company, resulting from the COVID-19 outbreak we have assessed this as a key audit matter.</p>	<p>To assess the risk of uncertainty as a result of the COVID-19 pandemic and its potential impact on the Group and Company's financial position and operations, we performed the following:</p> <ol style="list-style-type: none"> <li>1. Discussed with management the impact of the pandemic on the Group and Company's operations;</li> <li>2. Considered the potential implication of the pandemic on our audit procedures in respect of accounting estimates (where applicable);</li> <li>3. Considered whether changes to working practices brought about by COVID-19 had an adverse impact on the effectiveness of management's business process and IT controls;</li> <li>4. Assessed management analysis against our accumulated knowledge and understanding of business operations, including: <ul style="list-style-type: none"> <li>– impact on the demand and natural gas price in Ukraine;</li> <li>– consequences for the Group's supply chain and ability to procure required goods and services;</li> <li>– ability of workforce to undertake duties, including potential restrictions on movements;</li> <li>– available financial resources and ability to withstand a significant downturn in revenues; and</li> <li>– management control environment.</li> </ul> </li> <li>5. We evaluated the accuracy and completeness of management's disclosures in the Annual Report and Financial Statements.</li> </ol> <p>We concur with management's conclusion in respect of the impact of the pandemic on the Group and Company's operations and financial position.</p> <p>Our conclusions in respect of going concern are set out separately within the "Conclusions relating to going concern" section of this report.</p> <p>Also, we did not identify any changes which had a significant impact on our audit approach other than needing to perform most of our work remotely.</p>

# Independent Auditors' Report to the members of Enwell Energy plc CONTINUED

## Report on the audit of the financial statements

### 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 one operating segment, being oil and gas exploration, development and production in Ukraine. The consolidated financial statements are a consolidation of eight legal entities, comprising the Group's operating businesses and centralised functions; however, our audit of the Group was scoped as a single component.

Day-to-day management of the operations of the Group, including accounting and financial reporting, is undertaken in Kiev, Ukraine. Accordingly, a significant portion of our audit work was undertaken in Kiev.

Our audit gave us coverage of 100% of consolidated revenue and 100% of consolidated total assets. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

### 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
<b>Overall materiality</b>	US\$759,000 (2019: US\$1,088,000).	US\$1,372,000 (2019: US\$748,000).
<b>How we determined it</b>	5% of two-year average profit before tax adjusted for non-recurring items (2019: profit before tax)	1% of total assets (2019: total assets)
<b>Rationale for benchmark applied</b>	Based on the benchmarks used in the Annual Report, 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 two years, profit for the current year is significantly lower. Therefore, it was considered to be appropriate to use an average of profit before tax and the two-year average profit before tax 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 entity, and is a generally accepted auditing benchmark.

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% of overall materiality, amounting to US\$569,250 for the Group financial statements and 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 at the lower end 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\$37,950 (Group audit) (2019: US\$54,420) and US\$69,000 (Company audit) (2019: US\$37,000) 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 Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Discussions with management on future events and conditions;
- Testing of the cash flow model prepared by management, including a severe but plausible downside scenario, and the significant assumptions;
- Evaluation of the accuracy and completeness of management's disclosures in the Annual Report and 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 Group's and 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 financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and 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 2020 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 set out on page 38, 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 the 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.

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](http://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 Reynard

(Senior Statutory Auditor)  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory  
Auditors  
London

30 March 2021

# Financials

Consolidated Income Statement	45
Consolidated Statement of Comprehensive Income	46
Company Statement of Comprehensive Income	46
Consolidated Balance Sheet	47
Consolidated Statement of Changes in Equity	48
Consolidated Cash Flow Statement	49
Company Balance Sheet	50
Company Statement of Changes in Equity	51
Company Cash Flow Statement	52
Notes	53
Advisors	83
Glossary	84

# Consolidated Income Statement

for the year ended 31 December 2020

	Note	2020 \$000	2019 \$000
Revenue	4	47,251	55,931
Cost of sales	5	(31,511)	(32,415)
<b>Gross profit</b>		<b>15,740</b>	23,516
Administrative expenses	6	(7,791)	(7,396)
Other operating gains, (net)	9	1,821	4,973
<b>Operating profit</b>		<b>9,770</b>	21,093
Finance income	10	-	3,487
Finance costs	11	(1,418)	(450)
Net impairment gains on financial assets		24	32
Other losses (net)	12	(1,856)	(2,394)
<b>Profit before taxation</b>		<b>6,520</b>	21,768
Income tax expense	13	(3,332)	(9,569)
<b>Profit for the year</b>		<b>3,188</b>	12,199
<b>Earnings per share (cents)</b>			
Basic and diluted	15	1.0c	3.8c

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 2020

	2020 \$000	2019 \$000
Profit for the year	3,188	12,199
<b>Other comprehensive (expense)/income:</b>		
Items that may be subsequently reclassified to profit or loss:		
Equity – foreign currency translation	(15,050)	12,089
Items that will not be subsequently reclassified to profit or loss:		
Re-measurements of post-employment benefit obligations	(73)	165
Total other comprehensive (expense)/income	(15,123)	12,254
<b>Total comprehensive (expense)/income for the year</b>	<b>(11,935)</b>	<b>24,453</b>

# Company Statement of Comprehensive Income

for the year ended 31 December 2020

	Note	2020 \$000	2019 \$000
Profit/(loss) for the year	14	59,454	(17,507)
<b>Total comprehensive income/(expense) for the year</b>		<b>59,454</b>	<b>(17,507)</b>

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



# Consolidated Balance Sheet

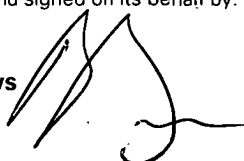
at 31 December 2020

	Note	2020 \$000	2019 \$000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	65,662	70,052
Intangible assets	17	12,232	5,197
Right-of-use assets	18	512	940
Prepayment for shares		-	500
Corporation tax receivable		9	10
Deferred tax asset	25	167	-
		<b>78,582</b>	<b>76,699</b>
<b>Current assets</b>			
Inventories	20	1,541	4,813
Trade and other receivables	21	4,847	10,937
Cash and cash equivalents	22	60,993	62,474
		<b>67,381</b>	<b>78,224</b>
<b>Total assets</b>		<b>145,963</b>	<b>154,923</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	23	(6,641)	(3,968)
Lease liabilities	18	(245)	(454)
Corporation tax payable		(1,062)	(2,221)
		<b>(7,948)</b>	<b>(6,643)</b>
<b>Net current assets</b>		<b>59,433</b>	<b>71,581</b>
<b>Non-current liabilities</b>			
Provision for decommissioning	24	(6,819)	(7,447)
Lease liabilities	18	(371)	(515)
Defined benefit liability		(530)	(480)
Deferred tax liability	25	(2,705)	(2,288)
Other non-current liabilities	3	(1,975)	-
		<b>(12,400)</b>	<b>(10,730)</b>
<b>Total liabilities</b>		<b>(20,348)</b>	<b>(17,373)</b>
<b>Net assets</b>		<b>125,615</b>	<b>137,550</b>
<b>Equity</b>			
Called up share capital	26	28,115	28,115
Share premium account		555,090	555,090
Foreign exchange reserve	27	(105,222)	(90,172)
Other reserves	27	4,273	4,273
Accumulated losses		(356,641)	(359,756)
<b>Total equity</b>		<b>125,615</b>	<b>137,550</b>

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 30 March 2021 and signed on its behalf by:

**Bruce Burrows**  
Director



# Consolidated Statement of Changes in Equity

at 31 December 2020

	Called up share capital \$000	Share premium account \$000	Merger reserve \$000	Capital contributions reserve \$000	Foreign exchange reserve* \$000	Accumulated losses \$000	Total equity \$000
As at 1 January 2019	28,115	555,090	(3,204)	7,477	(102,261)	(372,120)	113,097
Profit for the year	-	-	-	-	-	12,199	12,199
Other comprehensive income							
- exchange differences	-	-	-	-	12,089	-	12,089
- re-measurements of post-employment benefit obligations	-	-	-	-	-	165	165
Total comprehensive income	-	-	-	-	12,089	12,364	24,453
As at 31 December 2019	28,115	555,090	(3,204)	7,477	(90,172)	(359,756)	137,550

	Called up share capital \$000	Share premium account \$000	Merger reserve \$000	Capital contributions reserve \$000	Foreign exchange reserve* \$000	Accumulated losses \$000	Total equity \$000
As at 1 January 2020	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	-	-	-	-	(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

\* 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 2020

	Note	2020 \$000	2019 \$000
<b>Operating activities</b>			
Cash generated from operations	28	23,764	24,708
Charitable donations	12	(2,077)	(107)
Income tax paid		(3,850)	(3,963)
Interest received		1,487	4,809
<b>Net cash inflow from operating activities</b>		<b>19,324</b>	<b>25,447</b>
<b>Investing activities</b>			
Disposal of subsidiary		-	(7)
Purchase of property, plant and equipment		(12,749)	(19,050)
Purchase of intangible assets		(4,348)	(124)
Proceeds from return of prepayments for shares		250	-
Prepayment for shares		-	(500)
Proceeds from sale of property, plant and equipment		4	16
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(16,843)</b>	<b>(19,665)</b>
<b>Financing activities</b>			
Payment of principal portion of lease liabilities		(543)	(488)
<b>Net cash outflow from financing activities</b>		<b>(543)</b>	<b>(488)</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,938</b>	<b>5,294</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>62,474</b>	<b>53,222</b>
ECL of cash and cash equivalents		(6)	(7)
Effect of foreign exchange rate changes		(3,413)	3,965
<b>Cash and cash equivalents at end of year</b>	22	<b>60,993</b>	<b>62,474</b>

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

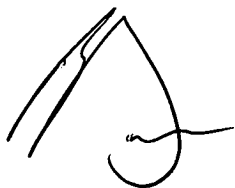
at 31 December 2020

	Note	2020 \$000	2019 \$000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	-	13
Intangible assets	17	52	-
Investments	19	35,287	17,279
Loans to subsidiary undertakings	19	62,828	14,181
Prepayment for shares		-	500
		<b>98,167</b>	<b>31,973</b>
<b>Current assets</b>			
Trade and other receivables	21	435	101
Cash and cash equivalents	22	38,619	41,671
		<b>39,054</b>	<b>41,772</b>
<b>Total assets</b>		<b>137,221</b>	<b>73,745</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Other non-current liabilities	3	(1,852)	-
		<b>(1,852)</b>	<b>-</b>
<b>Current liabilities</b>			
Trade and other payables		(2,426)	(256)
<b>Net current assets</b>		<b>36,628</b>	<b>41,516</b>
<b>Total liabilities</b>		<b>(4,278)</b>	<b>(256)</b>
<b>Net assets</b>		<b>132,943</b>	<b>73,489</b>
<b>Equity</b>			
Called up share capital	26	28,115	28,115
Share premium account		555,090	555,090
Accumulated losses		(450,262)	(509,716)
<b>Total equity</b>		<b>132,943</b>	<b>73,489</b>

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 30 March 2021 and signed on its behalf by:

**Bruce Burrows**  
Director



# Company Statement of Changes in Equity

at 31 December 2020

	Called up share capital \$000	Share premium account \$000	Accumulated losses \$000	Total equity \$000
As at 1 January 2019	28,115	555,090	(492,209)	90,996
Loss for the year and total comprehensive income	—	—	(17,507)	(17,507)
As at 31 December 2019	28,115	555,090	(509,716)	73,489

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

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 2020

	Note	2020 \$000	2019 \$000
<b>Operating activities</b>			
Cash used in operations	28	(3,512)	(3,022)
Taxation paid		(61)	–
Interest received		152	582
<b>Net cash used in operating activities</b>		<b>(3,421)</b>	<b>(2,440)</b>
<b>Investing activities</b>			
Proceeds from return of prepayments for shares		250	–
Prepayment for shares		–	(500)
Purchase of subsidiaries		(4,154)	–
Purchase of property, plant and equipment		(52)	–
Repayment of loans to Group companies		–	13,401
Repayment of interest on loans to Group companies		4,318	7,215
<b>Net cash provided by investing activities</b>		<b>363</b>	<b>20,116</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3,059)</b>	<b>17,676</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>41,671</b>	<b>23,990</b>
Effect of foreign exchange rate changes		7	5
<b>Cash and cash equivalents at end of year</b>	22	<b>38,619</b>	<b>41,671</b>

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

# Notes

## forming part of the financial statements

### 1. General Information and Operational Environment

Enwell Energy plc (formerly named Regal Petroleum 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 of 31 December 2020 and 2019, the Company's immediate parent company was Smart Energy (CY) Ltd (formerly named Pelidona Services Ltd), which is 100% owned by Smart Holding (Cyprus) Ltd (formerly named Lovitia Investments Ltd) which is 100% owned by Mr Vadym Novynskiyi. Accordingly, the Company was ultimately controlled by Mr Vadym Novynskiyi.

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

The macroeconomic situation in Ukraine during the first months of 2020 was reasonably stable, and this facilitated stability of the financial system. During 2020, consumer inflation in Ukraine was 5% (compared to 4.1% in 2019). However, internal and external factors that began to impact the Ukrainian economy in the second half of 2019, and which significantly strengthened in 2020, resulted in devaluation of the Ukrainian Hryvnia. As at 31 December 2020, the official National Bank of Ukraine ("NBU") exchange rate of the Ukrainian Hryvnia against the US Dollar was UAH28.27/\$1.00, compared with UAH23.69/\$1.00 as at 31 December 2019.

The repayment period of the sovereign debt owed by Ukraine to maintain the liquidity position during the crisis periods is being continually extended. The foreign currency sovereign debt repayments remain concentrated. In 2020-2022, the foreign currency repayments of the Ukrainian Government and the NBU, including interest payments, will cumulatively exceed \$24 billion. The major portion of this amount is expected to be refinanced in external markets.

In the subsequent periods, the key macroeconomic risk is represented by significant sovereign debt repayments. Accordingly, implementation of the new International Monetary Fund programme and terms of cooperation with other international financial organisations remain critically important.

As of the end of 2019, the NBU set its discount rate at 13.5%. During 2020, the monetary policy was further eased and the NBU's discount rate was decreased to 6% as at the end of the year. On 4 March 2021, the NBU increased the discount rate to 6.5%. Rapid developments driven by the coronavirus spread resulted in liquidity gaps of certain banks and a growth in demand for interbank credit facilities. To support financial stability, the NBU changed the operational design of its monetary policy, implemented long-term refinancing of banks, supported banks with foreign currency, postponed formation of the capital buffer by banks, and proposed that banks implement a special grace period of loan servicing over the coronavirus quarantine period for both consumers and businesses.

A significant number of companies in Ukraine had to terminate or limit their operations for the coronavirus quarantine restriction period. Measures taken to constrain the spread of the coronavirus, including quarantine, social distancing and suspension of social infrastructure activities, have impacted economic activities of companies in Ukraine, including the Group.

The Ukrainian Government formed after parliamentary elections in July 2019 was dissolved on 4 March 2020 and a new Government was appointed. Amid political changes, the degree of uncertainty, including in respect of the future direction of the reforms in Ukraine, remains very high. In addition, negative trends in global markets due to the coronavirus pandemic may further affect the Ukrainian economy. The final resolution and the ongoing effects of the political and economic situation are difficult to predict but they may have further severe effects on the Ukrainian economy and the Group's business.

As at 30 March 2021, the official NBU exchange rate of the Ukrainian Hryvnia against the US Dollar was UAH27.97/\$1.00, compared with UAH28.27/\$1.00 as at 31 December 2020.

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

### 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

The Group has prepared its consolidated financial statements and the Company's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (the "framework") and the applicable legal requirements of the Companies Act 2006. These consolidated financial statements are prepared under the historical cost convention as modified by certain financial instruments measured in accordance with the requirements of IFRS 9 Financial Instruments. The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

The preparation of financial statements in conformity with the framework 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.

The Directors are carefully monitoring the evolving situation with respect to the coronavirus pandemic and maintain a significant level of financial flexibility to modify the Group's development plans as may be required in order to preserve cash resources, using base, low and high cases for liquidity management.

As part of their Going Concern review conducted in mid-March 2021, the Directors have analysed the Group's cash flow forecasts and considered a severe but possible downside case scenario, being: a low case production profile; forward curve commodity prices being reduced by 20%; and all non-production costs being maintained at current levels with no reduction as would otherwise be possible.

# Notes CONTINUED

## forming part of the financial statements

In the Directors' view, while this scenario constitutes a remote possibility, it demonstrates that the Group would be able to operate well within its current financing arrangements.

### New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The following amendments to standards, which are relevant to the Group's consolidated financial statements, have been issued:

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

**COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020.** The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021;

and there is no substantive change to the other terms and conditions of the lease.

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

The following amended standards became effective from 1 January 2020, but did not have a material impact on the Group consolidated or Company's financial statements:

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

### Impact of standards issued but not yet applied by the Group

Certain new standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2021, and which the Group has not early adopted.

- i. **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 IASB)**

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

- ii. **IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)**

IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies.

IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset); and (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

- iii. **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)**

The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- **Effective date:** The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- **Expected recovery of insurance acquisition cash flows:** An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- **Contractual service margin attributable to investment services:** Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs





# Notes CONTINUED

## forming part of the financial statements

measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption. The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

### vii. 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)

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Unless otherwise described above, the 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.

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 de-consolidated 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 for 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 exploration activities should be expensed unless they meet the definition of an asset. An entity recognises an asset when it is probable that economic benefits will flow to the entity 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 within property, plant and equipment in single field cost centres.

The capitalisation point is the earlier of:

- (a) the point at which the fair value less costs to sell of the property can be reliably determined as higher than the total of the expenses incurred and costs already capitalised (such as licence acquisition costs); and
- (b) 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.

# Notes CONTINUED

forming part of the financial statements

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 16) 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.

## 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 good has 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 which 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:

- (a) assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;
- (b) 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
- (c) all resulting exchange differences are recognised in other comprehensive income.

The principal rates of exchange used for translating foreign currency balances at 31 December 2020 were \$1:UAH28.3 (2019: \$1:UAH23.7), \$1:£0.8 (2019: \$1:£0.8), \$1:€0.81 (2019: \$1:€0.9).

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 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.

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.

# Notes CONTINUED

## forming part of the financial statements

### Value added tax

Output value added tax ("VAT") 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 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.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at 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 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 contract assets. The Group measures ECL and recognises Net impairment losses on financial and contract 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 contract 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 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 while (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, 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).



# Notes CONTINUED

## forming part of the financial statements

### 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.

### 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 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.

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.

### Operating lease

Where the Group is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership to the lessee (i.e. operating lease), lease payments from operating leases are recognised as other income on a straight-line basis.

### 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 no significant loss of interest. 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.

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.



### 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 a maturity of 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 which have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Significant judgement

##### 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-Chervonolutske 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)
<b>Net liabilities – at the acquisition date, excluding licence</b>	<b>(168)</b>
Gross value of consideration (1st, 2nd and 3rd tranches)	8,469
Discounting effect	(306)
<b>Fair value of consideration (1st, 2nd and 3rd tranches)</b>	<b>8,163</b>
<b>Fair value of licence at the acquisition date</b>	<b>8,331</b>

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.

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

The second tranche is stated at its fair value at the date of acquisition and the estimated date of the relevant Court's decision in the Licence Case was assumed to be before 31 December 2020. The Group assumes that the financing effect between the estimated date and the actual adjudication described in Note 30 is immaterial.

The third tranche is payable in 12 months from the date of payment of the second tranche. At the date of acquisition, the fair value of the third tranche amounts to the discounted value at the effective interest rate, being the Company's effective borrowing rate of 9%. The Group recognised \$306,000 of discounting effect calculated against the value of the acquired assets.

The total consideration comprising the three tranches estimated at the date of acquisition amounts to \$8,163,000. Other non-current liabilities as at 31 December 2020 of \$1,975,000 comprise the non-current portion of the Arkona consideration, being \$1,852,000, and \$123,000 of other liabilities of Arkona for infrastructure development. The current portion of the Arkona consideration of \$2,157,500 is reflected in trade and other payables, giving the total outstanding balance related to the acquisition of \$4,009,500.

### Estimates

#### Recoverability of Oil and Gas Development and Production Assets in Ukraine

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

#### 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 and SV fields continue until the end of the economic life of the fields, which is assessed to be 2038 and 2042 respectively, based on the assessment contained in the DeGolyer & MacNaughton

# Notes CONTINUED

## forming part of the financial statements

reserves report for these fields. The licences for each of these fields have recently been extended until 2040, and therefore the inputs used to determine the depreciation charge for the SV field assume that the SV licence can be further extended until the end of its economic life in 2042.

### **Provision for Decommissioning**

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

A detailed assessment of gross decommissioning cost was undertaken on a well-by-well basis using local data on day rates and equipment costs. The discount rate applied on the decommissioning cost provision at 31 December 2020 was 3.70% (31 December 2019: 3.68%). The discount rate is calculated in real terms based on the yield to maturity of Ukrainian Government bonds denominated in the currency in which the liability is expected to be settled and with the settlement date that approximates the timing of settlement of decommissioning obligations.

The change in estimate applied to calculate the provision as at 31 December 2020 resulted from the revision of the estimated costs of decommissioning (increase of \$248,000 in provision) and an increase in the discount rate applied (decrease of \$22,000 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 (31 December 2019: by 2038 on the MEX-GOL field, by 2042 on the SV field and 2028 on the VAS field respectively), which is the end of the estimated economic life of the respective fields.

### **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 judgement 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 2020, the Company considered all reasonable and supportable forward-looking information available as of 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 subsidiary 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. For the purpose of the assessment of loans, these 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 in a longer perspective. As of 31 December 2020, the present value of future net cash flows to be generated by the subsidiary operating in Ukraine during 2021 – 2025, adjusted for the subsidiaries' working capital as at 31 December 2020 and estimated amounts reserved by the Group for investment projects in the time horizon was calculated. The increase in the net present value of future net cash flows as at 31 December 2020 in comparison with 31 December 2019 was affected by the increase in gas prices forecast and termination of the proposed acquisition of PJSC Science and Production Concern Ukrnaftinvest. For the purpose of the assessment of investments, these cash flows were taken for a period of the full economic life of the respective CGUs. The resulting amount, net of the carrying value of the Company's investments in subsidiaries, was compared to the discounted cash flows and net financial assets of the subsidiaries as at 31 December 2020. As such, the Company has recorded \$57,122,000 of income, being the net change in credit loss allowance for loans issued to and investments in subsidiaries in the Company's statement of profit or loss for the year ended 31 December 2020.

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.

### **Exchange Differences on Intra-group Balances with Foreign Operations**

As at 31 December 2019, a Group subsidiary, Regal Petroleum Corporation (Ukraine) Limited, planned to settle \$4,500,000 of intra-group liability by the end of 2020 and \$4,317,000 was settled in the period. A further amount of \$3,102,000 is planned to be settled by the end of 2021. As such, a foreign exchange difference of \$1,031,000 accumulated on the intra-group balance of \$165,906,000 since the date of de-designation of this balance as part of the Company's net investment in the foreign operation up to 31 December 2020 was recognised in profit or loss in these consolidated financial statements. No reclassification of the foreign exchange difference accumulated in equity prior to de-designation was made as there has been no change in the Company's proportionate ownership interest in the foreign operation and therefore no disposal or partial disposal of the foreign operation. There were no changes in management's plans or intentions regarding the payment of intra-group balances not settled as at 31 December 2020, other than the abovementioned amount of \$4,500,000, and, as such, a foreign exchange difference related to the balance designated as net investment in a foreign operation was recognised in other comprehensive income in the Company Statement of Comprehensive Income for the year ended 31 December 2020.

### **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.

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

\*Comprises additions to property, plant and equipment (Note 16)

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 2020, 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) payment for one third of the estimated monthly volume of gas by the 20th of the month of delivery, and (ii) payment of the remaining balance by the 10th of the month following the month of delivery.

	Ukraine 2019 \$000	United Kingdom 2019 \$000	Total 2019 \$000
<b>Revenue</b>			
Gas sales	38,345	–	38,345
Condensate sales	13,724	–	13,724
Liquefied Petroleum Gas sales	3,862	–	3,862
<b>Total revenue</b>	<b>55,931</b>	<b>–</b>	<b>55,931</b>
<b>Segment result</b>	<b>33,218</b>	<b>(1,935)</b>	<b>31,283</b>
<b>Depreciation and amortisation of non-current assets</b>	<b>(10,190)</b>	<b>–</b>	<b>(10,190)</b>
<b>Operating profit</b>			<b>21,093</b>
<b>Segment assets</b>	<b>114,722</b>	<b>42,408</b>	<b>157,130</b>
<b>Capital additions*</b>	<b>17,672</b>	<b>–</b>	<b>17,672</b>

\*Comprises additions to property, plant and equipment (Note 16)

# Notes CONTINUED

forming part of the financial statements

## 5. Cost of Sales

	2020 \$000	2019 \$000
Depreciation of property, plant and equipment	11,546	9,102
Production taxes	9,361	11,636
Staff costs (Note 8)	3,202	2,450
Rent expenses	3,151	5,317
Cost of inventories recognised as an expense	1,227	1,158
Transmission tariff for Ukrainian gas system	824	673
Amortisation of mineral reserves	488	510
Other expenses	1,712	1,569
	<b>31,511</b>	<b>32,415</b>

The main reason for the increase in depreciation in 2020 was the growth of production in the period. A transmission tariff for use of the Ukrainian gas transit system of UAH101.93/Mm<sup>3</sup> of gas was applicable to the Group (2019: UAH91.87/Mm<sup>3</sup>). The reduction in production taxes and rent expenses is a function of those charges being price-linked, with hydrocarbon prices having fallen significantly in the period.

## 6. Administrative Expenses

	2020 \$000	2019 \$000
Staff costs (Note 8)	4,521	4,282
Consultancy fees	1,271	869
Depreciation of other fixed assets	456	449
Auditors' remuneration	394	327
Rent expenses	154	138
Amortisation of other intangible assets	160	129
Other expenses	835	1,202
	<b>7,791</b>	<b>7,396</b>

	2020 \$000	2019 \$000
Audit of the Company and subsidiaries	176	119
Audit of subsidiaries in Ukraine	123	108
Audit-related assurance services – interim review	47	28
<b>Total assurance services</b>	<b>346</b>	<b>255</b>
Tax compliance services	3	24
Legal services	–	12
Tax advisory services	45	36
<b>Total non-audit services</b>	<b>48</b>	<b>72</b>
<b>Total audit and other services</b>	<b>394</b>	<b>327</b>

All amounts shown as Auditors' remuneration in 2020 and 2019 were payable to the Group Auditors, PricewaterhouseCoopers LLP and other member firms of PricewaterhouseCoopers LLP.

## 7. Remuneration of Directors

	2020 \$000	2019 \$000
Directors' emoluments	1,026	977

The emoluments of the individual Directors were as follows:

	Total Emoluments 2020 \$000	Total Emoluments 2019 \$000
<b>Executive Directors:</b>		
Sergii Glazunov	370	448
Bruce Burrows	354	206
<b>Non-Executive Directors:</b>		
Chris Hopkinson	128	128
Alexey Pertin	58	57
Yuliia Kirianova	58	57
Dmitry Sazonenko	58	57
Bruce Burrows	-	24
	1,026	977

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 on a full-time equivalent basis during the year (including Executive Directors) and the aggregate staff costs of such employees were as follows:

	Number of employees	
	2020	2019
<b>Group</b>		
Management / operational	147	144
Administrative support	78	69
	225	213

	2020 \$000	2019 \$000
Wages and salaries	6,664	5,874
Pension costs	953	772
Social security costs	106	86
	7,723	6,732

## 9. Other Operating Gains, net

	2020 \$000	2019 \$000
Interest income on cash and cash equivalents	1,421	4,751
Contractor penalties applied	-	15
Reversal of impairment of property, plant and equipment	81	-
Gain on sales of current assets	26	-
Other operating income, net	293	207
	1,821	4,973

## 10. Finance Income

During 2020, the Group recognised foreign exchange gains less losses of \$nil (2019: \$3,487,000).

# Notes CONTINUED

forming part of the financial statements

## 11. Finance Costs

	2020 \$000	2019 \$000
Foreign exchange losses less gains	1,058	–
Unwinding of a discount on provision for decommissioning (Note 24)	234	273
Unwinding of discount on lease liabilities	126	177
	<b>1,418</b>	<b>450</b>

## 12. Other Losses, net

	2020 \$000	2019 \$000
Charitable donations	2,077	107
Foreign exchange (gains)/losses	(340)	1,508
Unconfirmed tax credit on VAT	–	473
Other losses, net	119	306
	<b>1,856</b>	<b>2,394</b>

Charitable donations for the year ended 31 December 2020 comprise 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):

	2020 \$000	2019 \$000
Current tax		
UK – prior year	555	–
Overseas – current year	2,770	4,768
Overseas – prior year	(329)	–
Deferred tax (Note 25)		
UK – current year	640	3,211
UK – prior year	–	1,996
Overseas – current year	(304)	(406)
Income tax expense	<b>3,332</b>	<b>9,569</b>

b) Factors affecting tax charge for the year:

The tax assessed for the year is different from the blended rate of 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:

	2020 \$000	2019 \$000
Profit before taxation	6,520	21,768
Tax charge at UK tax rate of 19.00% (2019: 19.00%)	1,239	4,136
<b>Tax effects of:</b>		
Lower foreign corporate tax rates in Ukraine (18.00%) (2019: 18.00%)	(95)	(242)
Disallowed expenses and non-taxable income	22,648	3,598
Changes in tax losses previously not recognised as deferred tax asset	(21,015)	81
Adjustments in respect of prior periods	555	1,996
Total tax expense for the year	<b>3,332</b>	<b>9,569</b>

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 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 \$59,454,000 for the year ended 31 December 2020 (2019: loss \$17,507,000).

## 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 (2019: 320,637,836) ordinary shares, being the weighted average number of shares in issue for the year. There are no dilutive instruments.

## 16. Property, Plant and Equipment

Group	2020				2019			
	Oil and Gas Development and Production Assets \$000	Oil and Gas Exploration and Evaluation Assets \$000	Other Fixed Assets \$000	Total \$000	Oil and Gas Development and Production Assets \$000	Oil and Gas Exploration and Evaluation Assets \$000	Other Fixed Assets \$000	Total \$000
<b>Cost</b>								
At beginning of year	143,127	2,571	2,103	147,801	104,809	1,259	1,293	107,361
Additions	17,241	213	713	18,167	16,132	962	578	17,672
Change in decommissioning provision	372	-	-	372	3,207	-	-	3,207
Disposals	(443)	-	(73)	(516)	(130)	-	(17)	(147)
Exchange differences	(24,331)	(422)	(526)	(25,279)	19,109	350	249	19,708
At end of year	135,966	2,362	2,217	140,545	143,127	2,571	2,103	147,801
<b>Accumulated depreciation and impairment</b>								
At beginning of year	76,802	-	947	77,749	56,567	-	602	57,169
Charge for year	10,450	-	319	10,769	9,983	-	237	10,220
Disposals	(327)	-	(30)	(357)	(85)	-	(15)	(100)
Exchange differences	(13,109)	-	(169)	(13,278)	10,337	-	123	10,460
At end of year	73,816	-	1,067	74,883	76,802	-	947	77,749
<b>Net book value at beginning of year</b>	<b>66,325</b>	<b>2,571</b>	<b>1,156</b>	<b>70,052</b>	<b>48,242</b>	<b>1,259</b>	<b>691</b>	<b>50,192</b>
<b>Net book value at end of year</b>	<b>62,150</b>	<b>2,362</b>	<b>1,150</b>	<b>65,662</b>	<b>66,325</b>	<b>2,571</b>	<b>1,156</b>	<b>70,052</b>

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 2020, no impairment indicators were identified.

## 17. Intangible Assets

Group	2020				2019		
	Mineral reserve rights \$000	Exploration and evaluation intangible assets \$000	Other intangible assets \$000	Total \$000	Mineral reserve rights \$000	Other intangible assets \$000	Total \$000
<b>Cost</b>							
At beginning of year	7,843	–	572	8,415	6,709	330	7,039
Additions	–	8,331	224	8,555	–	137	137
Disposals	–	–	(85)	(85)	–	–	–
Exchange differences	(1,273)	(45)	(95)	(1,413)	1,134	105	1,239
At end of year	6,570	8,286	616	15,472	7,843	572	8,415
<b>Accumulated amortisation and impairment</b>							
At beginning of year	2,851	–	367	3,218	1,965	194	2,159
Charge for year	488	–	166	654	509	130	639
Disposals	–	–	(85)	(85)	–	–	–
Exchange differences	(484)	–	(63)	(547)	377	43	420
At end of year	2,855	–	385	3,240	2,851	367	3,218
Net book value at beginning of year	4,992	–	205	5,197	4,744	136	4,880
Net book value at end of year	3,715	8,286	231	12,232	4,992	205	5,197

# Notes CONTINUED

forming part of the financial statements

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 new hydrocarbon production licence relating to the Svystunivsko-Chervonolutske ("SC") field, 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 production licence relating to the SC field 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 to determine if impairment indicators exist. As at 31 December 2020, no impairment indicators were identified.

## 18. Leases

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

Amount recognised in the balance sheet:

	2020 \$000	2019 \$000
<b>Right-of-use assets</b>		
Properties	108	423
Land	236	299
Wells	168	218
	<b>512</b>	<b>940</b>
	2020 \$000	2019 \$000
<b>Lease liabilities</b>		
Current	245	454
Non-current	371	515
	<b>616</b>	<b>969</b>

Additions to the right-of-use assets during the 2020 financial year were \$56,000 (2019: \$170,000).

Amounts recognised in the statement of profit or loss:

	2020 \$000	2019 \$000
<b>Depreciation charge</b>		
Properties	(308)	(297)
Land	(15)	(16)
Wells	(35)	(39)
	<b>(358)</b>	<b>(352)</b>
Interest expense (included in finance cost)	(126)	(177)
Expense relating to short-term leases (included in cost of sales and administrative expenses)	(139)	(123)
Expense relating to variable lease payments not included in lease liabilities (included in cost of sales and administrative expenses)	(3,101)	(5,283)
Expense relating to lease payments for land under wells not included in lease liabilities (included in cost of sales)	(65)	(49)

The total cash outflow for leases in 2020 was \$3,456,000 (2019: \$7,934,000).



**19. Investments and Loans to Subsidiary Undertakings**

Company	Shares in subsidiary undertakings \$000	Loans to subsidiary undertakings \$000	Total \$000
At 1 January 2019	17,279	47,552	64,831
Additions including accrued interest	–	3,162	3,162
Repayment of interests and loans	–	(20,616)	(20,616)
Impairment of loans to subsidiary	–	(15,450)	(15,450)
Exchange differences	–	(467)	(467)
At 31 December 2019	17,279	14,181	31,460
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
At 31 December 2020	35,287	62,828	98,115

The Company has recorded a credit of \$87,264,000, being the net change in credit loss allowance for loans issued to subsidiaries in the Company's statement of profit or loss for the year ended 31 December 2020 (Note 3). This credit was calculated following a review of the underlying cash flow forecasts of the subsidiaries and is due to an increase in gas prices forecast and the termination of the proposed acquisition of PJSC Science and Production Concern Ukrnaftinvest. The Company also recorded a loss of \$30,142,000, being the net change in credit loss allowance for shares in subsidiary undertakings.

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

	Recoverable amount \$000	Gross balance of investment \$000	Impairment \$000
<b>31 December 2020</b>	35,287	65,429	(30,142)
Sensitivities:			
1. 10% reduction in gas price	32,407	65,429	(33,022)
2. 10% increase in gas price	38,166	65,429	(27,263)
3. 1% reduction in discount rate	36,154	65,429	(29,275)
4. 1% increase in discount rate	34,477	65,429	(30,952)

In 2020, after a Group restructuring, the Company transferred \$39,987,000 from loans to subsidiary undertakings to shares in subsidiary undertakings as a result of the offsetting of payables for corporate rights.

# Notes CONTINUED

forming part of the financial statements

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
<b>At 1 January 2020</b>	-	-	(167,072)	<b>(167,072)</b>	-	-	181,253	<b>181,253</b>
Movements with impact on credit loss allowance charge for the period:								
Modification of loans	-	-	72,412	<b>72,412</b>	-	-	(72,412)	<b>(72,412)</b>
Additions including accrued interest	-	-	-	-	-	-	4,336	<b>4,336</b>
Transfers	-	-	-	-	-	-	(39,987)	<b>(39,987)</b>
Payment of interest	-	-	-	-	-	-	(4,318)	<b>(4,318)</b>
Repayment of loans	-	-	-	-	-	-	-	-
Exchange difference	-	-	(12,979)	<b>(12,979)</b>	-	-	14,331	<b>14,331</b>
Changes to ECL measurement model assumptions	-	-	87,264	<b>87,264</b>	-	-	-	-
<b>Total movements with impact on credit loss allowance charge for the period</b>	-	-	146,697	<b>146,697</b>	-	-	(98,050)	<b>(98,050)</b>
<b>At 31 December 2020</b>	-	-	(20,375)	<b>(20,375)</b>	-	-	83,203	<b>83,203</b>

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 2019:

	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
<b>At 1 January 2019</b>	-	-	(193,386)	<b>(193,386)</b>	-	-	240,938	<b>240,938</b>
Movements with impact on credit loss allowance charge for the period:								
Modification of loans	-	-	42,733	<b>42,733</b>	-	-	(42,733)	<b>(42,733)</b>
Additions including accrued interest	-	-	(3,572)	<b>(3,572)</b>	-	-	6,734	<b>6,734</b>
Payment of interest	-	-	-	-	-	-	(7,221)	<b>(7,221)</b>
Repayment of loans	-	-	-	-	-	-	(13,395)	<b>(13,395)</b>
Exchange difference	-	-	2,603	<b>2,603</b>	-	-	(3,070)	<b>(3,070)</b>
Changes to ECL measurement model assumptions	-	-	(15,450)	<b>(15,450)</b>	-	-	-	-
<b>Total movements with impact on credit loss allowance charge for the period</b>	-	-	26,314	<b>26,314</b>	-	-	(59,685)	<b>(59,685)</b>
<b>At 31 December 2019</b>	-	-	(167,072)	<b>(167,072)</b>	-	-	181,253	<b>181,253</b>

ECL – Expected credit losses

SICR – Significant increase in credit risk

**Subsidiary undertakings**

At 31 December 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.

The Group acquired 100% of the share capital of LLC Arkona Gas-Energy on 24 March 2020 (Note 3).

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 2020.

**20. Inventories**

	<b>Group</b>	
	<b>2020</b>	2019
	<b>\$000</b>	<b>\$000</b>
<b>Current</b>		
Materials and spare parts	<b>1,445</b>	1,791
Finished goods	<b>96</b>	3,022
	<b>1,541</b>	4,813

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 as at 31 December 2020, production raw materials and fuel at the storage facility. Finished goods as at 31 December 2020 consist of produced gas held in underground gas storage facilities and condensate and LPG held at the processing facility prior to sale.

All inventories are measured at the lower of cost or net realisable value. There was no write-down of inventory as at 31 December 2020 or 2019.

**21. Trade and Other Receivables**

	<b>Group</b>		<b>Company</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Trade receivables	<b>1,936</b>	2,881	–	–
Other financial receivables	<b>1,053</b>	1,718	<b>304</b>	–
Less credit loss allowance	<b>(133)</b>	(155)	–	–
<b>Total financial receivables</b>	<b>2,856</b>	4,444	<b>304</b>	–
Prepayments and accrued income	<b>1,387</b>	5,959	<b>55</b>	8
Other receivables	<b>604</b>	534	<b>76</b>	93
<b>Total trade and other receivables</b>	<b>4,847</b>	10,937	<b>435</b>	101

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.

At 31 December 2020, the Group's total trade receivables amounted to \$1,806,000 and 100% were denominated in Ukrainian Hryvnia (31 December 2019: \$2,726,000 and 100% were denominated in Ukrainian Hryvnia). Further description of financial receivables is disclosed in Note 29.

## Notes CONTINUED

forming part of the financial statements

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 are payment for one third of the estimated monthly volume of gas by the 20th of the month of delivery, and payment of the remaining balance by the 10th of the month following the month of delivery. The trade receivables were paid in full after the end of the period.

Prepayments and accrued income mainly consist of prepayments of \$926,000 relating to the development of the SV field (31 December 2019: \$3,987,000 relating to the development of the SV field and \$1,094,000 relating to the development of the VAS field).

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
<b>Total trade and other receivables for which individual approach for ECL is used</b>		<b>2,989</b>	<b>(133)</b>	<b>2,856</b>	

ECL – Expected credit losses

Analysis by credit quality of financial trade and other receivables and expected credit loss allowance as at 31 December 2019 is as follows:

	Loss rate	Gross carrying amount \$000	Lifetime ECL \$000	Carrying amount \$000	Basis
Trade receivables from related parties	5%	2,644	(3)	2,641	financial position of related party
Trade receivables – credit impaired	100%	152	(152)	–	number of days the asset past due
Trade receivables – other	0.36%	85	–	85	historical credit losses experienced
Other financial receivables	0.92%–2.05%	1,718	–	1,718	individual default rates
<b>Total trade and other receivables for which individual approach for ECL is used</b>		<b>4,599</b>	<b>(155)</b>	<b>4,444</b>	

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 annual period:

	2020 \$000	2019 \$000
<b>Trade receivables</b>		
Balance at 1 January	155	99
New originated or purchased	–	3
Financial assets derecognised during the period	–	–
Changes in estimates and assumptions	3	30
Foreign exchange movements	(25)	23
<b>Balance at 31 December</b>	<b>133</b>	<b>155</b>

## 22. Cash and Cash Equivalents

	Group		Company	
	2020 \$000	2019 \$000	2020 \$000	2019 \$000
<b>Cash and cash equivalents</b>				
Cash at bank	53,710	28,089	38,619	23,656
Demand deposits and term deposits with maturity less than 3 months	7,283	34,385	–	18,015
	<b>60,993</b>	<b>62,474</b>	<b>38,619</b>	<b>41,671</b>

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 at 31 December:

	Cash at bank and on hand 2020 \$000	Demand deposits and term deposits with maturity less than 3 months 2020 \$000	Total cash and cash equivalents 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

	Cash at bank and on hand 2019 \$000	Demand deposits and term deposits with maturity less than 3 months 2019 \$000	Total cash and cash equivalents 2019 \$000
A- to A+ rated	23,655	18,015	41,670
B- to B+ rated	2	8,048	8,050
Unrated	4,432	8,322	12,754
	28,089	34,385	62,474

For cash and cash equivalents, 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 of 31 December 2020 for non-rated banks. Based on this assessment, the Group concluded that the identified impairment loss was immaterial.

### 23. Trade and Other Payables

	2020 \$000	2019 \$000
Accruals and other payables	4,037	2,418
Taxation and social security	1,396	1,092
Trade payables	843	277
Advances received	365	181
	6,641	3,968

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 29.

### 24. Provision for Decommissioning

Group	2020 \$000	2019 \$000
At beginning of the year	7,447	3,137
Amounts provided	146	355
Unwinding of discount	234	273
Change in estimate	226	2,852
Effect of exchange difference	(1,234)	830
At end of the year	6,819	7,447

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 \$6,819,000 (31 December 2019: \$7,447,000) represents a provision for the decommissioning of the Group's MEX-GOL, SV and VAS production facilities, including site restoration.

The change in estimates applied to calculate the provision as at 31 December 2020 is explained in Note 3.

The principal assumptions used are as follows:

	31 December 2020	31 December 2019
Discount rate	3.70%	3.68%
Average cost of restoration per well \$000	342	406

# Notes CONTINUED

forming part of the financial statements

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

	31 December 2020 \$000	31 December 2019 \$000
Discount rate (increase)/decrease by 1%	(948)/1,143	(1,086)/1,319
Change in average cost of restoration increase/(decrease) by 10%	469/(469)	523/(523)

## 25. Deferred Tax

	2020 \$000	2019 \$000
<b>Deferred tax asset recognised on tax losses</b>		
At beginning of year	-	2,134
Charged to Income Statement – current year	-	(2,134)
<b>At end of year</b>	-	-

	2020 \$000	2019 \$000
<b>Deferred tax (liability)/asset recognised relating to oil and gas development and production assets at MEX-GOL-SV fields and provision for decommissioning</b>		
At beginning of year	(2,141)	1,149
Charged to Income Statement – current year	(640)	(1,077)
Charged to Income Statement – prior year	-	(1,996)
Effect of exchange difference	76	(217)
<b>At end of year</b>	(2,705)	(2,141)

	2020 \$000	2019 \$000
<b>Deferred tax asset/(liability) recognised relating to development and production assets at VAS field and provision for decommissioning</b>		
At beginning of year	(147)	(504)
Credited to Income Statement – current year	304	406
Effect of exchange difference	10	(49)
<b>At end of year</b>	167	(147)

There was a further \$73,661,000 (31 December 2019: \$85,000,000) of unrecognised UK tax losses carried forward for which no deferred tax asset has been recognised. These losses can be carried forward indefinitely, subject to certain rules regarding capital transactions and changes in the trade of the Company.

The deferred tax asset relating to the Group's provision for decommissioning at 31 December 2020 of \$170,000 (31 December 2019: \$326,000) was recognised on the tax effect of the temporary differences of the Group's provision for decommissioning at the MEX-GOL and SV fields, and its tax base. The deferred tax liability relating to the Group's development and production assets at the MEX-GOL and SV fields at 31 December 2020 of \$2,875,000 (31 December 2019: \$2,467,000) was recognised on the tax effect of the temporary differences between the carrying value of the Group's development and production asset at the MEX-GOL and SV fields, and its tax base.

The deferred tax asset relating to the Group's provision for decommissioning at 31 December 2020 of \$323,000 (31 December 2019: \$329,000) was recognised on the tax effect of the temporary differences on the Group's provision on decommissioning at the VAS field, and its tax base. The deferred tax liability relating to the Group's development and production assets at the VAS field at 31 December 2020 of \$156,000 (31 December 2019: \$476,000) was recognised on the tax effect of the temporary differences between the carrying value of the Group's development and production asset at the VAS field, and its tax base. The deferred tax assets are expected to be recovered more than 12 months after the reporting period.

Losses accumulated in a Ukrainian subsidiary service company of UAH1,763,494,270 (\$116,622,885) at 31 December 2020 and UAH2,762,352,984 (\$62,370,264) at 31 December 2019 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 2020 and 2019, 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**

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

**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.

**26. Called Up Share Capital**

	2020		2019	
	Number	\$000	Number	\$000
<b>Allotted, called up and fully paid</b>				
Opening balance at 1 January	320,637,836	28,115	320,637,836	28,115
Issued during the year	-	-	-	-
Closing balance 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.

**27. 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. The share premium reserves are not available for distribution by way of dividends.

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.

**28. Reconciliation of Operating Profit to Operating Cash Flow**

Group	2020 \$000	2019 \$000
Operating profit	9,770	21,093
Depreciation and amortisation	12,679	10,190
Less interest income recorded within operating profit	(1,421)	(4,751)
Fines and penalties received	(18)	(236)
Gain on sales of current assets, net	(31)	(27)
Reversal of loss allowance on other financial assets	-	(46)
Loss from write-off of non-current assets	159	47
<b>Change in working capital:</b>		
Increase in provisions	(55)	67
Decrease/(increase) in inventory	2,499	(3,208)
Decrease in receivables	359	2,447
Decrease in payables	(177)	(868)
<b>Cash generated from operations</b>	<b>23,764</b>	<b>24,708</b>

# Notes CONTINUED

forming part of the financial statements

Company	2020 \$000	2019 \$000
Operating profit/(loss)	58,034	(15,016)
Interest received	(4,336)	(3,162)
<i>Change in working capital:</i>		
Movement in provisions (including impairment of subsidiary loans)	(57,122)	15,450
Increase in receivables	(101)	(453)
Increase in payables	13	159
<b>Cash used in operations</b>	<b>(3,512)</b>	<b>(3,022)</b>

## 29. Financial Instruments

### Capital Risk Management

The Group defines its capital as equity. The primary source of the Group's liquidity has been cash generated from operations. As at 31 December 2020, primary capital was \$60,993,000 (31 December 2019: \$62,474,000). 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.

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 deficit.

There are no capital requirements imposed on the Group.

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.

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

### Financial Assets

Group	2020 \$000	2019 \$000
Cash and cash equivalents	60,993	62,474
Trade and other receivables	2,856	4,444
Prepayment for shares	–	500
	<b>63,849</b>	<b>67,418</b>

Company	2020 \$000	2019 \$000
Cash and cash equivalents	38,619	41,671
Loans to subsidiary undertakings	62,828	14,181
Prepayment for shares	–	500
	<b>101,447</b>	<b>56,352</b>

### Financial Liabilities

Group	2020 \$000	2019 \$000
Lease liabilities	616	969
Trade payables	843	277
Other financial liabilities	4,336	1,018
	<b>5,795</b>	<b>2,264</b>

Company	2020 \$000	2019 \$000
Other financial liabilities	4,247	256
	<b>4,247</b>	<b>256</b>



All assets and liabilities of the Group where fair value is disclosed are level two 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	2020 \$000	2019 \$000
British Pounds	232	301
Euros	5	33
<b>Net monetary assets less liabilities</b>	<b>237</b>	<b>334</b>

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.

### 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 or 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 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 (profit for the year ended 31 December 2019 would increase by \$159,000 in the event of 0.5% higher interest rates and decrease by \$159,000 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 (2019: not affected).

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

# Notes CONTINUED

forming part of the financial statements

## 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 at 31 December 2020 is as follows:

As at 31 December 2020	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
<b>Liabilities</b>						
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
<b>Total future payments, including future principal and interest payments</b>	<b>1,177</b>	<b>2,265</b>	<b>134</b>	<b>2,860</b>	<b>539</b>	<b>6,975</b>

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

As at 31 December 2019	On demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	More than 5 years	Total
<b>Liabilities</b>						
Trade and other payables	1,295	–	–	–	–	1,295
Lease liabilities	42	83	375	511	563	1,574
<b>Total future payments, including future principal and interest payments</b>	<b>1,337</b>	<b>83</b>	<b>375</b>	<b>511</b>	<b>563</b>	<b>2,869</b>

Details of the Group's cash management policy are explained in Note 22.

Liquidity risk for the Group is further detailed under the Principal Risks section above.

## Credit Risk

Credit risk principally arises in respect of the Group's cash balance. For balances held outside Ukraine, where \$38.6 million of the overall cash and cash equivalents is held (31 December 2019: \$41.7 million), the Group only deposits cash surpluses with major banks of high quality credit standing (Note 22). As at 31 December 2020, the remaining balance of \$22.4 million of cash and cash equivalents was held in Ukraine (31 December 2019: \$20.8 million). In September 2020, 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.

## 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 2020 \$000	2020 \$000	2020 \$000	Total 2019 \$000	2019 \$000	2019 \$000
Euros	5	5	–	30	30	–
British Pounds	232	232	–	257	257	–
Ukrainian Hryvnia	20,569	–	20,569	17,881	–	17,881
US Dollars	40,187	40,187	–	44,306	44,306	–
	<b>60,993</b>	<b>40,424</b>	<b>20,569</b>	<b>62,474</b>	<b>44,593</b>	<b>17,881</b>

Cash deposits included in the above balances comprise short-term deposits.

As at 31 December 2020, cash and cash equivalents of the Company of \$39 million were held in US Dollars at a floating rate (2019: \$42 million).

### Interest Rate Risk Profile of Financial Liabilities

As at 31 December 2020 and 2019, 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	2020 \$000	2019 \$000
In one year or less	3,576	1,795
	3,576	1,795

Company	2020 \$000	2019 \$000
In one year or less	2,395	256
	2,395	256

### Borrowing Facilities

As at 31 December 2020 and 2019, 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.

## 30. Contingencies and Commitments

Amounts contracted in relation to the Group's 2020 investment programme in the MEX-GOL, SV and VAS fields in Ukraine, but not provided for in the financial statements at 31 December 2020, were \$9,052,165 (2019: \$2,306,000).

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 UAH8,487,000 (\$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 further legal proceedings may arise. Since, at the end of the year, the Group had been successful in previous court cases in respect of this dispute in courts of different levels, the date of the next legal proceedings has not been set and as management believes that adequate defences exist to the claim, no liability has been recognised in these consolidated financial statements for the year ended 31 December 2020 (31 December 2019: nil).

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

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 NJSC 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-Chorvonolutskyi 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. As a consequence, the Licence remains valid.

# Notes CONTINUED

forming part of the financial statements

## 31. 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:

	2020 \$000	2019 \$000
Sale of goods/services	32,074	38,417
Purchase of goods/services	890	963
Amounts owed by related parties	1,805	2,649
Amounts owed to related parties	202	137

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.

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

	2020 \$000	2019 \$000
Bank charges	3	1
Closing cash balance (as at 31 December)	1	1

The bank charges represent cash transit fees.

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

## 32. Post Balance Sheet Events

With effect from 25 February 2021, the Company completed a reduction of capital through the cancellation of its entire share premium account, thereby creating distributable reserves, which enable 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.

From 1 January 2021, after changes to Ukrainian tax legislation, the Company's subsidiary, Regal Petroleum Corporation Limited, is obliged to register as an income tax payer in Ukraine and to pay income tax instead of its branch (Representative Office) in Ukraine.

In March 2021, following the satisfaction of conditions relating to the payment of the second tranche of the consideration for the acquisition of LLC Arkona Gas-Energy, this tranche has been paid (net of an indemnity liability).

No subsequent events have arisen as a result of the COVID-19 pandemic that have had a material impact on the consolidated and the Company's financial statements for the period ended 31 December 2020.

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# Glossary

<b>AAPG</b>	American Association of Petroleum Geologists
<b>Arkona</b>	LLC Arkona Gas-Energy
<b>bbl</b>	barrel
<b>bbl/d</b>	barrels per day
<b>Bm<sup>3</sup></b>	thousands of millions of cubic metres
<b>boe</b>	barrels of oil equivalent
<b>boepd</b>	barrels of oil equivalent per day
<b>£</b>	British Pound
<b>Bscf</b>	thousands of millions of scf
<b>C<sub>1</sub></b>	reserves in deposits that were not put into commercial development and that may be the subject matter of production testing or individual well production testing
<b>C<sub>2</sub></b>	reserves in deposits that were not put into commercial development and that are developed based on a production testing plan or individual well production testing plan, matured with seismic exploration or other methods, and the availability of which is supported by geological and geophysical study data as well as testing data obtained from individual wells while drilling
<b>Company</b>	Enwell Energy plc
<b>D&amp;M</b>	DeGolyer and MacNaughton
<b>€</b>	Euro
<b>Group</b>	Enwell Energy plc and its subsidiaries
<b>km</b>	kilometre
<b>km<sup>2</sup></b>	square kilometre
<b>LPG</b>	liquefied petroleum gas
<b>MEX-GOL</b>	Mekhediviska-Golotvshinska
<b>m<sup>3</sup></b>	cubic metre
<b>m<sup>3</sup>/d</b>	cubic metres per day
<b>Mboe</b>	thousand barrels of oil equivalent
<b>Mm<sup>3</sup></b>	thousand cubic metres
<b>MMbbl</b>	million barrels
<b>MMboe</b>	million barrels of oil equivalent
<b>MMm<sup>3</sup></b>	million cubic metres
<b>MMscf</b>	million scf
<b>MMscf/d</b>	million scf per day
<b>Mtonnes</b>	thousand tonnes
<b>%</b>	per cent
<b>QCA Code</b>	Quoted Companies Alliance Corporate Governance Code 2018
<b>QHSE</b>	quality, health, safety and environment
<b>SC</b>	Svystunivsko-Chervonolutskyi
<b>scf</b>	standard cubic feet measured at 20 degrees Celsius and one atmosphere
<b>SPE</b>	Society of Petroleum Engineers
<b>SPEE</b>	Society of Petroleum Evaluation Engineers
<b>SV</b>	Svyrydivske
<b>Tscf</b>	trillion scf
<b>UAH</b>	Ukrainian Hryvnia
<b>\$</b>	United States Dollar
<b>VAS</b>	Vasyschevskoye
<b>VED</b>	Vvdenska
<b>WPC</b>	World Petroleum Council



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