Enteq Upstream plc

Interim results for the six months ended 30 September 2019

AIM traded Enteq Upstream plc ("Enteq", the "Company" or the "Group"), the Oil & Gas drilling technology company, today announces its interim results for the six months ended 30 September 2019.

Key features

- Significant growth in revenue (58%) and adjusted EBITDA* (143%), ahead of management's prior expectations
- Adjusted EBITDA[1] margin at 23% (September 2018: 15%)
- Growth in both North American and International revenues
- International revenues up to 36% of first half year total (September: 2018: 6%)
- Technology partnerships creating pull through for Enteq sales
- Exclusive agreement with Shell for innovative Directional Drilling technology

Financial metrics

	6 Months ended 30 September:	
	2019	**2018**
	US$m	*US$m*
• Revenue	6.5	4.2
• Adjusted EBITDA[1]	1.5	0.6
• Post tax loss for the period	0.5	0.4
• Adjusted loss per share (cents) [2]	0.4	0.4
• Cash balance	10.7	11.8

Outlook

- North American market requires long term stability of oil production, but has short term rig count reduction
- International markets show increase in demand for Enteq equipment
- New technology agreements, including with Shell, broaden the markets that can be addressed by Enteq
- Continuing strong balance sheet enables further investment opportunities

Martin Perry, CEO of Enteq Upstream plc, commented:

"Enteq has delivered progressive growth, both in revenue and adjusted EBITDA, for the third successive first half reporting period, with a particularly strong performance from international sales. Investment continues to be made into both new technology and strategic opportunities with the recent exclusive technology agreement with Shell significantly broadening the potential for Enteq.

"Despite a recent drop in the number of active rigs drilling in North America, Enteq is optimistic for growth as new technology and markets are introduced. The board is confident in meeting its full year expectations."

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Chris Treneman, Patrick Robb, David Anderson

[1] *Adjusted EBITDA is reported profit before tax adjusted for interest, depreciation, amortisation, foreign exchange movements, performance share plan charges and exceptional items.*

[2] *Adjusted earnings per share is reported profit per share adjusted for foreign exchange movements, amortisation, performance share plan charges and exceptional items.*

Interim Report

CHAIRMAN & CHIEF EXECUTIVE OFFICER'S REPORT

Market Update

Enteq Upstream supplies Measurement While Drilling (MWD) equipment to drilling companies in the oil, gas and geothermal industries. The equipment enables the well-bore to be accurately positioned and assists in optimising the efficiency of drilling and production operations.

During the six-month reporting period ended 30 September 2019, the price of West Texas Intermediate Crude oil ("WTI") averaged around US$58 per barrel (closing the period at US$53). During the same period the North American rig count reduced from approximately 1,030 to 850 rigs, but the international market remains strong with good medium-term prospects.

Enteq's market share has been maintained in North America, despite reductions in the rig count, through the Group's on-going rental programme with the number of rental Measurement While Drilling systems deployed during the period remaining steady at 31 kits (30 September 2018: 24 kits). This business model both secures long-term market share and maintains Enteq's position as a major equipment supplier within the MWD system sector.

International sales, being those outside North America, increased, becoming approximately 40% of total revenue, compared to approximately 10% in the second half of the financial year ended 31 March 2019 and approximately 6% in the six months period before that. New customers have been secured in China, Middle East and Russia, through Enteq's reputation for reliable, technically advanced, equipment that operates in harsh, high temperature conditions.

Recently announced technology partnerships and licensing arrangements, including an agreement with Shell, have enabled Enteq to broaden its addressable Logging While Drilling and Directional Drilling (steering) markets. The total Directional Drilling service market world-wide is estimated to be worth $10bn per annum.

Operations

All the core engineering, manufacturing and distribution functions continue to operate from the Enteq owned facility in South Houston, Texas, with some contract engineering being carried out in the UK.

At the end of September 2019, Enteq employed a total of 35 staff, compared with 33 at end of March 2019. Contract engineering and support staff are retained as needed for specific projects.

Continued investment in technology

The 'At-Bit' technology, a result of a collaboration with Houston based firm Well Resolutions Technology, is now commercialised and has resulted in pull through sales, primarily in China.

The in-house development of PowerHop, the patented wireless down-hole connection system, has been successfully demonstrated to a number of potential customers. It has attracted significant interest, particularly in International markets for connectivity with 3rd party Logging While Drilling equipment.

The exclusive license signed during the period with Shell to commercialise their Rotary Steerable System technology represents a significant medium/ long-term revenue creating opportunity. The Rotary Steerable drilling market is currently estimated at $1bn. Enteq has embarked on a two to three-year project to convert the Shell technology into a fully operational system, requiring a total investment in the order of US$2m. The final product will offer the market a unique and differentiated solution for positioning a well whilst drilling.

Overview of results

The first half year revenue of US$6.5m represents a rise of 58% over the US$4.2m for the first half of last year, and a 8% rise over the second half of the year ended 31 March 2019.

The North American market continues to be Enteq's most important geographical market, representing 64% of first half revenues (September 2018: 94%). Enteq's sales in the international market have grown significantly in the last six months, primarily through extending the Group's customer base in China. The international market represented 36% of the first half year revenue (September 2018: 6%).

The equipment rental market revenue continues to show good growth, up from US$1.6m in the first half of last year to US$2.6m in this reporting period (US$2.1m in the second half of the year ended 31 March 2019). This growth reflects the on-going investment in the rental fleet standing at 31 kits as at September 2019 (24 kits as at September 2018). During this reporting period a further three kits were added to the fleet, at a cost of $0.7m, which balanced the three kits that came to the end of their rental contract. The carrying value of these kits were fully depreciated by the end of their contract and their title passed to the renter when the final rental payment was made.

The Group's reported gross margin of 55% in the first half of this year was down on the 62% achieved for the six months to 30 September 2018. This was due to the current half year having a higher proportion of International sales which, due to their higher average ticket price, achieve slightly lower margins. In addition, due to the weakening of the North American market, the first half year results included a provision against certain projected slow-moving stock lines.

In the six months to 30 September 2019 the administrative expenses before amortisation, depreciation and long-term incentive scheme charges were US$2.1m. This is in line with the equivalent overhead figures in both the first and second half of the last financial year.

A combination of all the above results in an adjusted EBITDA profit in the period of US$1.5m, a strong progression from the $0.6m for the period ended 30 September 2018. A reconciliation between the reported loss and the adjusted EBITDA is shown in note 5 to the Financial Statements below.

Cash balance and cashflow

As at 30 September 2019 the Group had a cash balance of US$10.7m, down US$1.2m over the figure as at 31 March 2019.

The half year cash movement can be analysed as follows:

	US$m
Adjusted EBITDA	**1.5**
Decrease in trade and other receivables	-
Decrease in trade and other payables	(0.7)
Increase in inventory	(0.8)
Operational cashflow	**-**
Increase in the rental fleet	(0.7)
R&D expenditure	(0.7)
Capex	(0.1)
Other items	0.3
Net cash movement	(1.2)
Cash balances as at 1 April 2019	11.9
Cash balances as at 30 September 2019	**10.7**

The decrease in trade and other payables resulted from the timing of net payments to trade creditors, post period end, plus payments relating to the all staff bonus scheme for the year ended 31 March 2019. The increase in inventory includes US$0.6m of deliveries of long lead time sensors. The $0.7m spent on the rental fleet relates to the new kits put into the fleet, as previously mentioned. The $0.7m spent on R&D relates to the proportion of the engineering team relating to development of future products including PowerHop.

Summary and outlook

Enteq has delivered progressive growth, both in revenue and adjusted EBITDA, for the third successive first half reporting period, with a particularly strong performance from international sales. Investment continues to be made into both new technology and strategic opportunities, with the recent exclusive technology agreement with Shell significantly broadening the potential for Enteq.

Despite a recent drop in the number of active rigs drilling in North America, Enteq is optimistic for growth as new technology and markets are introduced. The board is confident in meeting its full year expectations.

Martin Perry	Iain Paterson
Chief Executive	**Chairman**

Enteq Upstream plc

14 November 2019

Enteq Upstream plc
Condensed Consolidated Income Statement

	Notes	Six months to 30 September 2019 Unaudited US$ 000's	Six months to 30 September 2018 Unaudited US$ 000's	Year to 31 March 2019 Audited US$ 000's
Revenue		6,546	4,152	10,204
Cost of Sales		(2,950)	(1,581)	(3,546)
Gross Profit		3,596	2,571	6,658
Administrative expenses before amortisation		(4,020)	(2,943)	(6,952)
Amortisation of acquired intangibles	*9b*	(148)	(60)	(116)
Other exceptional items		(2)	(2)	(7)
Foreign exchange (loss)/gain on operating activities		(25)	(28)	6
Total Administrative expenses		(4,195)	(3,033)	(7,069)
Operating loss		(599)	(462)	(411)
Finance income		142	111	246
Loss before tax		(457)	(351)	(165)
Tax expense	*8*	-	-	67
Loss for the period	*5*	(457)	(351)	(98)
Loss attributable to:				
Owners of the parent		(457)	(351)	(98)
Earnings/loss per share (in US cents):	*7*			
Basic		(0.7)	(0.6)	(0.2)
Diluted		(0.7)	(0.6)	(0.2)
Adjusted earnings per share (in US cents):	*7*			
Basic		(0.4)	(0.4)	-
Diluted		(0.4)	(0.4)	-

Condensed Consolidated Statement of Comprehensive Income

	Six months to 30 September 2019 Unaudited *US$ 000's*	Six months to 30 September 2018 Unaudited *US$ 000's*	Year to 31 March 2019 Audited *US$ 000's*
Loss for the period	(457)	(351)	(98)
Other comprehensive income for the period:			
Items that will not be reclassified subsequently to profit or loss	-	-	-
Items that will be reclassified subsequently to profit or loss	-	-	-
Total comprehensive income for the period	(457)	(351)	(98)

Total comprehensive income attributable to:			
Owners of the parent	(457)	(351)	(98)

Enteq Upstream plc
Condensed Statement of Financial Position

	Notes	30 September 2019 Unaudited *US$ 000's*	30 September 2018 Unaudited *US$ 000's*	31 March 2019 Audited *US$ 000's*
Assets				
Non-current				
Goodwill	*9a*	-	-	-
Intangible assets	*9b*	2,940	1,657	2,394
Property, plant and equipment		2,487	2,506	2,446
Rental fleet		2,489	2,963	3,449
Trade and other receivables		-	168	334
Non-current assets		7,916	7,294	8,623
Current				
Trade and other receivables		2,347	3,043	2,020
Inventories		5,301	3,989	4,512
Cash and cash equivalents		10,662	11,848	11,930
Current assets		18,310	18,880	18,462
Total assets		**26,226**	**26,174**	**27,085**
Equity and liabilities				
Equity				
Share capital	*10*	1,028	1,003	1,005
Share premium		91,579	91,334	91,398
Share based payment reserve		866	700	750
Retained earnings		(69,562)	(69,702)	(69,105)
Total equity		23,911	23,335	24,048
Liabilities				
Current				
Trade and other payables		2,315	2,839	3,037
Total equity and liabilities		**26,226**	**26,174**	**27,085**

Enteq Upstream plc
Condensed Consolidated Statement of Changes in Equity

Six months to 30 September 2019

	Called up share capital	Profit and loss account	Share premium	Share based payment reserve	Total equity
	US$ 000's	*US$ 000's*	*US$ 000's*	*US$ 000's*	*US$ 000's*
Issue of share capital	23	-	181	-	204
Share based payment charge	-	-	-	116	116
Transactions with owners	23	-	181	116	320
Loss for the period	-	(457)	-	-	(457)
Total comprehensive income	-	(457)	-	-	(457)
Movement in period:	23	(457)	181	116	(137)
As at 1 April 2019 (audited)	1,005	(69,105)	91,398	750	24,048
As at 30 September 2019 (unaudited)	**1,028**	**(69,562)**	**91,579**	**866**	**23,911**

Six months to 30 September 2018

	Called up share capital	Profit and loss account	Share premium	Share based payment reserve	Total equity
	US$ 000's	*US$ 000's*	*US$ 000's*	*US$ 000's*	*US$ 000's*
Issue of share capital	20	-	303	-	323
Share based payment charge	-	-	-	(210)	(210)
Transactions with owners	20	-	303	(210)	113
Loss for the period	-	(351)	-	-	(351)
Total comprehensive income	-	(351)	-	-	(351)
Movement in period:	20	(351)	303	(210)	(238)
As at 1 April 2018 (audited)	983	(69,351)	91,031	910	23,573
As at 30 September 2018 (unaudited)	**1,003**	**(69,702)**	**91,334**	**700**	**23,335**

Enteq Upstream plc
Condensed Consolidated Statement of Cash flows

	Six months to 30 September 2019	Six months to 30 September 2018	Year to 31 March 2019
	Unaudited	Unaudited	Audited
	US$ 000's	*US$ 000's*	*US$ 000's*
Cash flows from operating activities			
Loss for the period	(457)	(351)	(98)
Tax charge	-	-	(67)
Net finance income	(142)	(111)	(246)
(Gain)/loss on disposal of fixed assets	-	(9)	(9)
Share-based payment non-cash charges	116	(206)	186
Impact of foreign exchange movement	25	28	(6)
Depreciation and Amortisation charges	1,934	1,200	2,691
	1,476	551	2,451
Tax paid	-	-	-
(Increase)/decrease in inventory	(787)	(687)	(1,210)
Decrease/(increase) in trade and other receivables	5	(872)	(14)
(Decrease)/increase in trade and other payables	(720)	(459)	(197)
Net cash from operating activities	(26)	(1,467)	1,030
Investing activities			
Purchase of tangible fixed assets	(127)	(203)	(213)
Increase in rental fleet assets	(743)	(1,903)	(3,754)
Disposal proceeds of tangible fixed assets	-	9	9
Purchase of intangible fixed assets	(693)	(495)	(1,286)
Interest received	142	111	246
Net cash from investing activities	(1,421)	(2,481)	(4,998)
Financing activities			
Share issue	204	323	391
Net cash from financing activities	203	323	391
Increase/(decrease) in cash and cash equivalents	**(1,243)**	**(3,625)**	**(3,577)**
Non-cash movements - foreign exchange	(25)	(28)	6
Cash and cash equivalents at beginning of period	11,930	15,501	15,501
Cash and cash equivalents at end of period	**10,662**	**11,848**	**11,930**

ENTEQ UPSTREAM PLC

NOTES TO THE FINANCIAL STATEMENTS
For the six months to 30 September 2019

1. Reporting entity

Enteq Upstream plc (“the Company”) is a public limited company incorporated and domiciled in England and Wales (registration number 07590845). The Company’s registered address is The Courtyard, High Street, Ascot, Berkshire, SL5 7HP.

The Company’s ordinary shares are traded on the AIM market of The London Stock Exchange.

Both the Company and its subsidiaries (together referred to as the “Group”) are focused on the provision of specialist products and technologies to the upstream oil and gas services market.

2. General information and basis of preparation

The information for the period ended 30 September 2019 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the period ended 31 March 2019 has been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’, as adopted by the European Union.

The Group’s consolidated interim financial statements are presented in US Dollars (US$), which is also the functional currency of the parent company. These condensed consolidated interim financial statements (the interim financial statements) have been approved for issue by the Board of directors on 13 November 2019.

This half-yearly financial report has not been audited, and has not been formally reviewed by auditors under the Auditing Practices Board guidance in ISRE 2410.

3. Accounting policies

The interim financial statements have been prepared on the basis of the accounting policies and methods of computation applicable for the period ended 31 March 2019. These accounting policies are consistent with those applied in the preparation of the accounts for the period ended 31 March 2019.

4. Estimates

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group’s last annual financial statements for the year ended 31 March 2019.

5. Adjusted earnings and adjusted EBITDA

The following analysis illustrates the performance of the Group's activities, and reconciles the Group's loss, as shown in the condensed consolidated interim income statement, to adjusted earnings. Adjusted earnings are presented to provide a better indication of overall financial performance and to reflect how the business is managed and measured on a day-today basis. Adjusted earnings before interest, taxation, depreciation and amortisation ("adjusted EBITDA") is also presented as it is a key performance indicator used by management.

	Six months to 30 September 2019 US$ 000's Unaudited	Six months to 30 September 2018 US$ 000's Unaudited	Year to 31 March 2019 US$ 000's Audited
Loss attributable to ordinary shareholders	**(457)**	**(351)**	**(98)**
Exceptional items	2	2	7
Amortisation of acquired intangible assets	147	60	116
Foreign exchange movements	25	28	(6)
Adjusted earnings	**(283)**	**(261)**	**19**
Depreciation charge	1,787	1,141	2,575
Finance income	(142)	(111)	(246)
PSP charge	114	(163)	173
Tax charge	-	-	(67)
Adjusted EBITDA	**1,476**	**606**	**2,454**

6. Segmental Reporting

For management purposes, the Group is currently organised into a single business unit, the Drilling Division, which is based, operationally, solely in the USA.

The principal activities of the Drilling Division are the design, manufacture and selling of specialised products and technologies for Directional Drilling and Measurement While Drilling operations used in the energy exploration and services sector of the oil and gas industry.

At present, there is only one operating segment and the information presented to the Board is consistent with the consolidated income statement and the consolidated statement of financial position.

The net assets of the Group by geographic location (post-consolidation adjustments) are as follows:

Net Assets	30 September 2019 US$ 000's Unaudited	30 September 2018 US$ 000's Unaudited	31 March 2019 US$ 000's Audited
Europe (UK)	10,689	14,086	10,315
United States	13,222	9,249	13,733
Total Net Assets	23,911	23,335	24,048

The net assets in Europe (UK) are represented, primarily, by cash balances denominated in US$.

7. Earnings Per Share

Basic earnings per share

Basic earnings per share is calculated by dividing the loss attributable to ordinary shareholders for the six months of US$457,400 (September 2018: loss of US$350,900) by the weighted average number of ordinary shares in issue during the period of 65,488,000 (September 2018: 63,705,000).

Adjusted earnings per share

Adjusted earnings per share is calculated by dividing the adjusted earnings loss for the six months of US$283,400 (September 2018: loss of US$261,200), by the weighted average number of ordinary shares in issue during the period of 65,488,000 (September 2018: 63,705,000).

The adjusted diluted earnings per share information are considered to provide a fairer representation of the Group's trading performance.

A reconciliation between basic earnings and adjusted earnings is shown in Note 5.

As the Group is loss making, any potential ordinary shares have the effect of being anti-dilutive. Therefore, the diluted EPS is the same as the basic EPS. As the share price, as at 30 September 2019, was below the weighted average option price of all the options issued, the adjusted diluted EPS the same as adjusted EPS.

8. Income Tax

No tax liability arose on ordinary activities for the six months under review.

9. Intangible Fixed Assets

a) Goodwill

	US$ 000's
Cost:	
As at 30 September 2019 and 1 April 2019	19,619
Impairment:	
As at 30 September 2019 and 1 April 2019	(19,619)
Net Book Value:	
As at 30 September 2019 and 1 April 2019	-

9. **Intangible Fixed Assets (cont.)**

b) Other Intangible Fixed Assets

	Developed technology US$ 000's	IPR&D technology US$ 000's	Brand names US$ 000's	Customer relationships US$ 000's	Non- compete agreements US$ 000's	Total US$ 000's
Cost:						
As at 1 April 2019	12,823	9,305	1,240	20,586	5,931	49,885
Transfers	153	(153)	-	-	-	-
Capitalised in period	-	693	-	-	-	693
As at 30 September 2019	12,976	9,845	1,240	20,586	5,931	50,578
Amortisation:						
As at 1 April 2019	12,626	7,108	1,240	20,586	5,931	47,491
Charge for the period	147	-	-	-	-	147
As at 30 September 2019	12,773	7,108	1,240	20,586	5,931	47,638
Net Book Value:						
As at 1 April 2019	197	2,197	-	-	-	2,394
As at 30 September 2019	203	2,737	-	-	-	2,940

The main categories of Intangible Fixed Assets are as follows:

Developed technology:
This is technology which is currently commercialised and embedded within the current product offering.

IPR&D technology:
This is technology which is in the final stages of field testing, has demonstrable commercial value and is expected to be launched within the next 12 months.

Brand names:
The value associated with the XXT trading name used within the Group.

Customer relationships:
The value associated with the on-going trading relationships with the key customers acquired.

Non-compete agreements:
The value associated with the agreements signed by the Vendors of the acquired businesses not to compete in the markets of the businesses acquired.

10. **Share capital**

Share capital as at 30 September 2019 amounted to US$1,028,000 (31 March 2019: US$1,005,000 and 30 September 2018: US$1,003,000).

11. **Going concern**

The Directors have carried out a review of the Group's financial position and cash flow forecasts for the next 12 months by way of a review of whether the Group satisfies the going concern tests. These have been based on a comprehensive review of revenue, expenditure and cash flows, taking into account specific business risks and the current economic environment. With regards to the Group's financial position, it had cash and cash equivalents at 30 September 2019 of US$10.7m.

Having taken the above into consideration the Directors have reached a conclusion that the Group is well placed to manage its business risks in the current economic environment. Accordingly, they continue to adopt the going concern basis in preparing the Interim Condensed Financial Statements.

12. Principal risks and uncertainties

Further detail concerning the principal risks affecting the business activities of the Group is detailed on pages 10 and 11 of the Annual Report and Accounts for the year ended 31 March 2019. Consideration has been given to whether there have been any changes to the risks and uncertainties previously reported. None have been identified.

13. Events after the balance sheet date

There have been no material events subsequent to the end of the interim reporting period ended 30 September 2019.

14. Copies of the interim results

Copies of the interim results can be obtained from the Group's registered office at The Courtyard, High Street, Ascot, Berkshire, SL5 7HP and are available from the Group's website at www.enteq.com.