ENTEQ UPSTREAM PLC

Consolidated Financial Statements
for the six months ended 30 September 2018

Contents

Company Information
for the six months ended 30 September 2018

DIRECTORS:

Chairman
Iain Paterson — *Chairman of the Board, Chairman of Nomination Committee*

Executive Directors
Martin Perry — *Chief Executive Officer*
David Steel — *Finance Director*

Non-Executive Director
Robin Pinchbeck — *Chairman, Remuneration and Audit Committees*

SECRETARY
David Steel

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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 ending 30 September 2018, the price of West Texas Intermediate Crude oil ("WTI") averaged around US$70 per barrel (closing the period at US$73). The North American rig count remained broadly constant at around 1,050 rigs. This led to a more stable market for Enteq products.

Enteq gained a number of new customers in North America primarily through the growth in the number of rental Measurement While Drilling systems deployed, rising from 14 rental kits at the end of March 2018 to 24 kits at 30 September 2018. This business model both secures long term market share and also ensures that Enteq becomes the standard supplier for all the components required within the total MWD system.

First shipments have been made to customers in both the Far East and Europe for geothermal drilling, opening up potential new markets where the reliability of the Enteq equipment is being recognised. Operations continue in Saudi Arabia, where the initial technical qualification with Aramco has been completed with continuing sales to China, Russia and into the Middle East region.

Key Features

- Stable commodity prices and activity in USA with international opportunities beginning to materialise.
- Revenue showing steady improvement.
- Progressive growth in adjusted EBITDA.
- Investment in technology and the rental fleet of MWD systems; cash balance US$ 11.8m (US$ 15.3m in September 2017).

Operations

All the core engineering, manufacturing and distribution functions are now operated from the Enteq owned facility in South Houston.

At the end of September 2018, Enteq employed a total of 35 staff, compared with 33 at end of March 2018, but still significantly below the approximately 120 staff in 2014. The reduction since 2014 has been achieved, and maintained, through out-sourcing of the lower margin manufacturing as well as efficiency gains through re-organisation suitable to a business in the current market conditions.

Customer demonstrations have been held and initial trials are under way for the new 'At-Bit' technology which is now commercially released; a result of a collaboration with Houston based firm Well Resolutions Technology.

The 'Geowells' project, with sponsorship from the UK government in collaboration with Chinese research organisations and Imperial College in London, continues to progress according to plan. Engineering resources based in the UK have been added to the team to assist with this and other Enteq engineering.

Patent applications have now been published for a differentiated method of connection and communication in the down-hole environment.

Outlook

- Core market of North American land drilling expected to remain near current levels.
- Further international growth prospects.
- Technology partnerships will increase available market.
- Current engineering projects will broaden product offering.
- Current market conditions give stable platform for growth.

Overview of results

The first half revenue of US$4.2m represented a rise of 66% over the US$2.5m for the first half of last year and 5% over the second half of last year. This reflects the stability seen in both the price of WTI oil (rising from US$52 per barrel in September 2017 to US$73 at the end of September 2018) and the number of drilling rigs active in North America (a gentler rise from around 950 in September 2017 to around 1,050 in September 2018). This stability has enabled our customers (the drilling services companies) to be more confident for the demand in their services and, hence, order more of our equipment.

The North American market continues to be Enteq's most important geographical market, representing 90% of the first half revenue (September 2017: 97%).

The equipment rental market revenue continues to show good growth, up from US$0.7m in the second half of last year to US$1.6m in this reporting period (US$0.3m in the second half of last year).

This reflects the increased investment in the rental fleet, up from a net book value of US$ 2.2m at the end of last year, to US$3.0m as at 30 September 2018 (US$0.8m as at 30 September 2017).

The gross margin of 62% earned in the first half of this year was marginally down on the 65% achieved in the second half of last year and down on the 70% for the six months to 30 September 2017. Both reductions were due to a lower proportion of sales coming from the higher margin electronic component business, countered, to some extent, by a higher proportion of rental income.

In the six months to 30 September 2018 the reported administrative expenses before amortisation, less depreciation and long-term incentive scheme charges were US$ 2.0m. This is a US$ 0.4m decrease over the second half of last year. This decrease is primarily due to bringing the electronic component manufacturing to the Enteq owned Houston site and closing the leased facility in California from mid-March 2018. In addition, there was the timing impact of receiving the UK government grant relating to the geothermal drilling equipment project. The overhead increase compared to the first half of the year ended 31 March 2018 (US$ 1.7m) is primarily due to the additional headcount (plus associated costs) required to service the increasing revenue during the year to 30 September 2018.

The adjusted EBITDA profit in the period of US$0.6m shows a progression from the September 2017 breakeven and the US$0.2m profit in the second half of the year ended 31 March 2018. A reconciliation between the reported loss and the adjusted EBITDA is shown in note 5 to the Financial Statements.

Cash balance and cashflow

As at 30 September 2018 the Group had a cash balance of US$11.8m, down US$3.7m over the figure as at 31 March 2018. The half year cash movement can be analysed as follows:

	US$m
Adjusted EBITDA	**0.6**
Increase in trade & other receivables	(0.9)
Increase in inventory*	(0.7)
Other changes in operational working capital	(0.2)
Operational cashflow	**(1.2)**
Increase in the rental fleet	(1.9)
R&D expenditure	(0.5)
Capex	(0.2)
Interest received	0.1
Net cash movement	(3.7)
Cash balances as at 1 April 2018	15.5
Cash balances as at 30 September 2018	**11.8**

* The increase in inventory includes US$0.4m of equipment relating to a collaborative development of a seamless “At-Bit” solution which is now commercially available.

Prospects

Enteq has returned to progressive growth in adjusted EBITDA and investments are being made from existing cash reserves into both new technology and strategic opportunities. Management believe that the returns from these investments will both broaden the market that can be addressed by Enteq and increase market share. Outside North America management continue to pursue opportunities which could be significant in scale. Providing the oil price remains at a level to sustain investment in the drilling sector, Enteq is confident of continuing growth.

Martin Perry	Iain Paterson
Chief Executive	**Chairman**

Enteq Upstream plc

15 November 2018

Enteq Upstream plc
Condensed Consolidated Income Statement

	Notes	Six months to 30 September 2018 Unaudited *US$ 000's*	Six months to 30 September 2017 Unaudited *US$ 000's*	Year to 31 March 2018 Audited *US$ 000's*
Revenue		4,152	2,506	6,460
Cost of Sales		(1,581)	(754)	(2,141)
Gross Profit		2,571	1,752	4,319
Administrative expenses before amortisation		(2,943)	(2,161)	(4,994)
Amortisation of acquired intangibles	*9b*	(60)	(46)	(92)
Other exceptional items		(2)	23	(57)
Foreign exchange (loss)/gain on operating activities		(28)	40	48
Total Administrative expenses		(3,033)	(2,144)	(5,095)
Operating loss		(462)	(392)	(776)
Finance income		111	77	175
Loss before tax		(351)	(315)	(601)
Tax expense	*8*	-	(3)	(3)
Loss for the period	*5*	(351)	(318)	(604)
Loss attributable to:				
Owners of the parent		(351)	(318)	(604)
Earnings/loss per share (in US cents):	*7*			
Basic		(0.6)	(0.5)	(1.0)
Diluted		(0.6)	(0.5)	(1.0)
Adjusted earnings per share (in US cents):	*7*			
Basic		(0.4)	(0.6)	(0.8)
Diluted		(0.4)	(0.6)	(0.8)

Condensed Consolidated Statement of Comprehensive Income

	Six months to 30 September 2018 Unaudited *US$ 000's*	Six months to 30 September 2017 Unaudited *US$ 000's*	Year to 31 March 2018 Audited *US$ 000's*
Loss for the period	(351)	(318)	(604)
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	(351)	(318)	(604)
Total comprehensive income attributable to:			
Owners of the parent	(351)	(318)	(604)

Enteq Upstream plc
Condensed Statement of Financial Position

	Notes	30 September 2018 Unaudited *US$ 000's*	30 September 2017 Unaudited *US$ 000's*	31 March 2018 Audited *US$ 000's*
Assets				
Non-current				
Goodwill	*9a*	-	-	-
Intangible assets	*9b*	1,657	890	1,222
Property, plant and equipment		2,506	2,275	2,384
Rental fleet		2,963	777	2,119
Trade and other receivables		168	-	238
Non-current assets		7,294	3,942	5,963
Current				
Trade and other receivables		3,043	2,714	2,104
Inventories		3,989	3,358	3,302
Cash and cash equivalents		11,848	15,330	15,501
Current assets		18,880	21,402	20,907
Total assets		**26,174**	**25,344**	**26,870**
Equity and liabilities				
Equity				
Share capital	*10*	1,003	978	982
Share premium		99,334	90,953	91,031
Share based payment reserve		700	943	910
Retained earnings		(69,702)	(69,065)	(69,351)
Total equity		23,335	23,809	23,572
Liabilities				
Current				
Trade and other payables		2,839	1,535	3,298
Total equity and liabilities		**26,174**	**25,344**	**26,870**

Enteq Upstream plc
Condensed Consolidated Statement of Changes in Equity

Six months to 30 September 2018

	Called up share capital US$ 000's	Profit and loss account US$ 000's	Share premium US$ 000's	Share based payment reserve US$ 000's	Total equity US$ 000's
Issue of share capital	21	-	303	-	323
Share based payment charge	-	-	-	(206)	(206)
Transactions with owners	21	-	303	(206)	117
Loss for the period	-	(351)	-	-	(351)
Total comprehensive income	-	(351)	-	-	(351)
Movement in period:	21	(351)	303	(206)	(234)
As at 1 April 2018 (audited)	983	(69,352)	91,031	910	23,571
As at 30 September 2018 (unaudited)	**1,003**	**(69,703)**	**91,334**	**703**	**23,338**

Six months to 30 September 2017

	Called up share capital US$ 000's	Profit and loss account US$ 000's	Share premium US$ 000's	Share based payment reserve US$ 000's	Total equity US$ 000's
Issue of share capital	15	-	235	-	250
Share based payment charge	-	-	-	137	137
Transactions with owners	15	-	235	137	387
Loss for the period	-	(318)	-	-	(318)
Total comprehensive income	-	(318)	-	-	(318)
Movement in period:	15	(318)	235	137	69
As at 1 April 2018 (audited)	963	(68,747)	90,718	806	23,740
As at 30 September 2018 (unaudited)	**978**	**(69,065)**	**90,953**	**943**	**23,809**

Enteq Upstream plc
Condensed Consolidated Statement of Cash flows

	Six months to 30 September 2018	Six months to 30 September 2017	Year to 31 March 2018
	Unaudited	Unaudited	Audited
	US$ 000's	*US$ 000's*	*US$ 000's*
Cash flows from operating activities			
Loss for the period	(351)	(318)	(604)
Tax charge	-	3	3
Net finance income	(111)	(77)	(175)
(Gain)/loss on disposal of fixed assets	(9)	(22)	(82)
Share-based payment non-cash charges	(206)	137	104
Impact of foreign exchange movement	28	(40)	(48)
Depreciation and Amortisation charges	1,200	324	853
	551	7	51
Interest received	111	81	175
Tax paid	-	-	(1)
(Increase)/decrease in inventory	(687)	(470)	64
Decrease/(increase) in trade and other receivables	(872)	1,211	1,582
(Decrease)/increase in trade and other payables	(459)	(852)	910
Net cash from operating activities	(1,356)	(23)	2,781
Investing activities			
Purchase of tangible fixed assets	(192)	(2)	(236)
Increase in rental fleet assets	(1,903)		(2,222)
Disposal proceeds of tangible fixed assets	9	22	133
Purchase of intangible fixed assets	(495)	(291)	(670)
Net cash from investing activities	(2,591)	(271)	(2,995)
Financing activities			
Share issue	323	249	332
Net cash from financing activities	323	249	332
Increase/(decrease) in cash and cash equivalents	**(3,624)**	**(45)**	**118**
Non-cash movements - foreign exchange	(28)	40	48
Cash and cash equivalents at beginning of period	15,501	15,335	15,335
Cash and cash equivalents at end of period	**11,848**	**15,330**	**15,501**

ENTEQ UPSTREAM PLC

NOTES TO THE FINANCIAL STATEMENTS
For the six months to 30 September 2018

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 2018 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 2018 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 14 November 2018.

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 2018. These accounting policies are consistent with those applied in the preparation of the accounts for the period ended 31 March 2018.

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 2018.

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 is 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 2018 US$ 000's Unaudited	Six months to 30 September 2017 US$ 000's Unaudited	Year to 31 March 2018 US$ 000's Audited
Loss for the period	**(351)**	**(318)**	**(604)**
Other exceptional items	2	(22)	57
Amortisation of acquired intangible assets	60	46	92
Foreign exchange movements	28	(40)	(48)
Adjusted earnings	**(261)**	**(334)**	**(503)**
Depreciation charge	1,141	277	760
Finance income	(111)	(77)	(175)
PSP charge	(163)	146	138
Tax charge	-	3	3
Adjusted EBITDA	**606**	**15**	**223**

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 2018 US$ 000's Unaudited	30 September 2017 US$ 000's Unaudited	31 March 2018 US$ 000's Audited
Europe (UK)	11,330	14,560	13,673
United States	12,205	9,249	9,899
Total Net Assets	23,535	23,809	23,572

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$350,900 (September 2017: loss of US$317,600) by the weighted average number of ordinary shares in issue during the period of 63,705,000 (September 2017: 61,307,000).

Adjusted earnings per share

Adjusted earnings per share is calculated by dividing the adjusted earnings loss for the six months of US$261,200 (September 2017: loss of US$334,200), by the weighted average number of ordinary shares in issue during the period of 63,705,000 (September 2017: 61,307,000).

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 2018, 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 2018 and 1 April 2018	19,619
Impairment:	
As at 30 September 2018 and 1 April 2018	(19,619)
Net Book Value:	
As at 30 September 2018 and 1 April 2018	-

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 2018	12,676	8,164	1,240	20,586	5,931	48,597
Transfers						
Capitalised in period	-	495	-	-	-	495
As at 30 September 2018	12,676	8,659	1,240	20,586	5,931	49,092
Amortisation:						
As at 1 April 2018	12,510	7,108	1,240	20,586	5,931	47,375
Charge for the period	60	-	-	-	-	60
As at 30 September 2018	12,570	7,108	1,240	20,586	5,931	47,435
Net Book Value:						
As at 1 April 2018	166	1,056	-	-	-	1,222
As at 30 September 2018	106	1,551	-	-	-	1,657

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 2018 amounted to US$1,003,000 (31 March 2018: US$982,000 and 30 September 2017: US$978,000).

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 2018 of US$11.8 million.

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 11 and 12 of the Annual Report and Accounts for the period ended 31 March 2018. 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 2018.

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.