# *ENTEQ UPSTREAM PLC*

## *ANNUAL REPORT*

## *FOR THE YEAR TO 31 MARCH 2020*

**REGISTERED NUMBER: 07590845 (England and Wales)**

# *Contents*

# *Key features, Financial Metrics and Outlook*

## Key features

- Growth in both revenue and adjusted EBITDA*
- International revenue up from 9% to 30% of total
- Adjusted EBITDA* margin up from 24% to 28%
- Continued investment in new technologies and rental fleet
- Recent downturn in global markets reflected in major write-down of intangible assets ($4.2m) and inventory ($2.7m)

## Financial metrics

| | Years ended 31 March ($m): | |
|---|---|---|
| | **2020** | **2019** |
| • Revenue | 10.9 | 10.2 |
| • Adjusted EBITDA[1] | 3.1 | 2.5 |
| • Ongoing operating loss [2] | 0.8 | 0.4 |
| • Exceptional items | 7.3 | - |
| • Total post tax loss | 7.8 | 0.1 |
| • Adjusted post tax loss per share (cents) [3] | 0.6 | 0.0 |
| • Post tax loss per share (cents) | 12.1 | 0.2 |
| • Cash balance | 10.2 | 11.9 |

## Outlook

- US markets uncertain of short-term recovery; oil price stabilisation will support international opportunities
- Focussed investment in new technology
- Emphasis on maintaining a strong balance sheet

*[1] Adjusted EBITDA is reported profit before tax adjusted for interest, depreciation, amortisation, foreign exchange movements, Performance Share Plan charges and exceptional items. See note 3.*

*[2] Ongoing operating loss is reported profit before tax adjusted for interest and exceptional items.*

*[3] Adjusted post tax loss per share (cents) is reported profit before tax adjusted for amortisation foreign exchange movements and exceptional items divided by the weighted average numbers of ordinary shares in issue.*

# *Company Information*

*For the year to 31 March 2020*

**DIRECTORS:**

<u>*Chairman*</u>

| | |
|---|---|
| Iain Paterson | *Chairman of the Board, Chairman of Nomination Committee* |

<u>*Executive Directors*</u>

| | |
|---|---|
| Martin Perry | *Chief Executive Officer* |
| David Steel | *Finance Director* |

<u>*Non-Executive Director*</u>

| | |
|---|---|
| Neil Hartley | *Chairman of the Remuneration and Audit Committees – appointed 24 March 2020* |
| Robin Pinchbeck | *Resigned 24 March 2020* |

**SECRETARY**
David Steel

**REGISTERED OFFICE**
The Courtyard
High Street
Ascot
Berkshire
SL5 7HP

**REGISTERED NUMBER**
07590845 (England and Wales)

**AUDITORS**
Grant Thornton UK LLP
Registered Auditors
1020 Eskdale Road
Winnersh
Wokingham
RG41 5TS

**NOMINATED ADVISER & BROKER**
Investec Bank plc
30 Gresham Street
London
EC2V 7QP

**LEGAL ADVISORS**
CMS Cameron McKenna Nabarro Olswang LLP
Cannon Place
78 Cannon Street
London
EC4N 6AF

**REGISTRARS**
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

## Strategic Report

The above starts with the combined Chief Executive and Chairman's report and continues to the end of the Review of the Principle Risks and Uncertainties.

## Combined Chief Executive and Chairman's report

### Introduction

Enteq supplies Measurement While Drilling ("MWD") equipment and develops technology for the world-wide oil, gas and geothermal directional drilling sector. Directional drilling is carried out by service companies who either purchase equipment from third parties, such as Enteq, or develop the equipment themselves. MWD equipment is required on every rig which drills directional wells and until recently Enteq's equipment was estimated to be in use on more than 300 drilling rigs worldwide.

Enteq has a proven track record of providing extremely reliable and respected technology to regional / independent drillers who wish to compete with the major international drilling companies. Enteq's vision is to continue to develop technology which will provide efficient and cost-effective solutions for drilling companies, wherever they operate.

As a result of the recent virus pandemic and the associated significant negative adjustment to the world-wide oil prices, Enteq has experienced significant disruption to its business since mid-March 2020.

Despite the recent market changes, Enteq remains well positioned with a strong balance sheet. The on-going level of operational overheads have been reduced in order to protect the cash balance, enabling Enteq to sustain the operations of the business for the foreseeable future. Enteq intends to grow the business, in due course, by maintaining and increasing market presence, especially in the markets outside North America. This will be primarily through maintaining investment in new technologies suitable for a competitive and low-cost medium-term drilling environment.

### Review of the Year

This year's financial results show growth in both revenue and adjusted EBITDA. Revenue increased by 7% to $10.9m, primarily due to international revenue rising from $1.0m in the year to March 2019 to $3.2m this year. The North American market experienced a challenging year with revenue falling from $9.2m to $7.7m, primarily due to the oilfield services companies concentrating on reducing their debt burden, with a rapid decline in revenues since the outbreak of the virus pandemic and dramatic oil price reductions. Adjusted EBITDA has risen to $3.1m (March 2019: $2.5m) and represents a margin of 28%, up from 24% last year. Operating activities produced a positive cashflow of $0.9m. Overall, however, the cash balance reduced by $1.7m during the year to $10.2m, due to continued investment in technology, engineering and rental assets.

In mid-March 2020, a combination of reduced oil demand, due to the outbreak of COVID-19 virus, and increased oil production by both Saudi Arabia and Russia saw a dramatic shift downwards in the oil price. The price of a barrel of West Texas Intermediate ("WTI") dropped from $41 on 6 March to $14 on 30 March. This raised questions regarding the sustainability of the United States based shale oil drilling and production business model. US oilfield services companies embarked on major cost and cash saving measures including laying off staff and freezing both capex and any discretionary opex spend.

Enteq responded quickly to this major reduction in demand for all its product lines by reducing the US workforce by approximately 60%, releasing all US based contract staff and curtailing all discretionary spend. In addition, in order to further conserve cash, all Board members have agreed to take a significant proportion of their remuneration in new Enteq shares.

In recognition of the uncertain market conditions in both the short and medium term, these reported results contain an exceptional write off of previously capitalised costs of developing new products that are no longer deemed commercially viable of $4.2m (held within intangible assets) and a $2.7m write down of specific products held in inventory.

During this financial year the Group's USA focussed rental model continued to be a major proportion of the total group revenue at 44%, up from 35% last year. Pleasingly, all kits were revenue earning during the year, with no kits being returned before the end of their contractual rental period. During the year the number of kits held in the fleet reduced from 32 to 17; the remaining kits being held in the balance sheet at a value of $1.0m (March 2019: $3.4m).

Prior to the global slow-down, positive gains were made in the International markets with revenue rising from $1.0m to $3.2m. The dominant geographical market was China, which represented 84% of the total international revenues. Although the effect of the virus in China slowed all activity during the last quarter, new negotiations and supply contracts are again under discussion. During the year a supply agreement and partnership was re-negotiated in Saudi Arabia, where a separation, re-registering and reclaim of equipment was concluded with a previous agent. A new partner has been found and appropriate agreements signed. This will enable renewed focus on the Saudi market, concentrating on suppling equipment to Saudi Aramco.

A significant new technology license agreement was announced in September 2019 with Shell Global Solutions. This license grants Enteq exclusive rights to the IP and know-how generated by Shell relating to a novel rotary steerable drilling technology. A rotary steerable system offers significant advantages over traditional directional drilling techniques by allowing for faster drilling, longer lateral distances, creation of a more manageable well and cost efficiencies.

The rotary steerable market is currently dominated by the major suppliers, such as Schlumberger, BakerGE and Halliburton, whom, it is estimated, currently account for more than 75% of the global market. After recent price adjustments the global market for Rotary Steerable related work in 2021 is still estimated to be greater than $2bn.

The Shell Rotary Steerable System, which had been developed through to initial prototype testing, delivers significant advantages of efficiency and lower operating costs. The arrangement with Shell is royalty based, as outlined in the agreement announcement of September 2019 and Enteq is on-track with the re-engineering efforts, based in the UK, for new prototype tools to be in test during 2021. Enteq has submitted their first, satisfactory, progress report to Shell regarding the work competed to date which includes validation of key principles, design review of requirements for a reliable down-hole tool and significant modelling of force mechanisms. Enteq Board have concluded that this is a viable project and continue to invest both internally and with a dedicated contract engineering team based in the UK for the following phases of development.

Due to the dramatic change in market conditions at the end of the financial year, some difficult decisions had to be made regarding the appropriate level of ongoing business overheads. Unfortunately, this resulted in significant reductions, mostly related to operations support in the USA and in engineering projects which may not have a market in the new global environment. Core competencies and capabilities have been maintained in the business and Enteq is well positioned with inventory to fulfil future orders. Enteq remains able to provide competitive delivery times for potential new customers, which together with creative partnerships, should continue to support on-going activity.

**Board changes**

On 24 March 2020, Neil Hartley joined the Board as a non-executive director. Neil entered the oil industry in 1988 as a field engineer for Schlumberger after gaining an Engineering Degree at Oxford University. Following an MBA at Harvard Business School, Neil has spent the past 20 years in financial services, as an investment banker at energy sector bank Simmons and Company and as a private equity investor at First Reserve, a leading global private equity investment firm exclusively focused on energy. He is non-executive director at Renewi plc and Telford Offshore. Neil chairs both the Company's Audit and Remuneration Committees. Rob Pinchbeck, who had been serving as a Non-executive Director since Enteq was admitted to AIM in 2011, retired from the Board on 24 March 2020. The Board wish to record their appreciation for the contribution Rob made to Enteq Upstream since his appointment. His counsel proved invaluable to the Board throughout his tenure.

**Staff**

There was a total of 19 employees at the end of the year, down from the 33 at the previous year end, primarily due to the March oil price shock mentioned above. Additional contract personnel have been used as needed in the areas of engineering and production during specific times of high demand. The Board would like to recognise the on-going loyalty, dedication and support of the remaining personnel as Enteq continues with its excellent reputation for the reliability of equipment and commitment to customer support during these difficult market conditions. On 22 April 2020, Raymond Garcia the US based COO left the group. The Board would further like to thank all those who have left and wish them well.

**Reporting & performance indicators**

A set of Key Performance Indicators are in place. These are reported weekly to senior management who review, initiate action where required and follow-up. The following Key Performance Indicators, unchanged from the previous year, are used:

Financial:

- Sales, gross profit margin, adjusted EBITDA, order intake and backlog, accounts receivable ageing, inventory levels, rental fleet numbers and capital expenditure.

Other performance measures:

- Headcount, production hours worked, number of reportable Health and Safety Executive ("HSE") incidents.

Key market indicators regularly monitored by management and Board of Directors include: Global Rig Count, North American Rig Count, both WTI and Brent Oil Prices and Henry Hub Natural Gas Price.

**Governance**

Enteq is committed to maintaining high standards of Corporate Governance, as such on 10 July 2018, the Enteq Board formally adopted the Quoted Company Alliance Code of Corporate Governance. More details are given on page 21.

## Prospects

Enteq is well positioned to support current activities for the foreseeable future. In addition, Enteq will maintain investment in potential game-changing technology which has the potential to address the demands for reduced costs in the future drilling environment. Even in a medium term, reduced oil price, post Covid-19, world there will continue to be a demand for hydrocarbons and increased efficiency in drilling will be needed for the industry.

With a strong balance sheet and a continued appetite to invest in focused new product development Enteq is well positioned to benefit from a return to market stability.

**Iain Paterson**

Chairman

**Martin Perry**

Chief Executive officer

30 June 2020

# Financial Review

## Income Statement

| **Year to 31 March:** | *2020* | *2019* |
|---|---|---|
| | *$ million* | *$ million* |
| **Revenue** | **10.9** | **10.2** |
| Cost of Sales | (4.3) | (3.5) |
| **Gross profit** | **6.6** | **6.7** |
| Overheads | (3.5) | (4.2) |
| **Adjusted EBITDA** | **3.1** | **2.5** |
| Depreciation & amortisation | (3.6) | (2.7) |
| Other charges | (0.3) | (0.2) |
| **Ongoing operating loss** | **(0.8)** | **(0.4)** |
| Exceptional items | (7.3) | - |
| Interest | 0.3 | 0.2 |
| **Loss before tax** | **(7.8)** | **(0.2)** |
| Tax | - | 0.1 |
| **Loss after tax** | **(7.8)** | **(0.1)** |

The total revenue of $10.9m represents a 7% increase over the previous year. The North American market was challenging during the year, even before the events of mid-March, with a steady decrease in rig count from 1,025 as at 1 April 2019 to 790 at the end of February; with a dramatic drop to 664 as at 31 March 2020. This was despite a relatively stable price of a barrel of WRT during the majority of the year, only varying between $65 and $52 until mid-March, then falling to $19 by 31 March. The market commentators were of the view that the oilfield service companies, Enteq's customers, were using any available cash to pay off debt acquired to service their expansion post the last down turn, rather than replacing existing kit. This resulted in North American turnover falling from $9.3m last year to $7.7m this year. The international revenue grew strongly from $0.9m to $3.2m, with the Chinese market being particularly buoyant. Despite facing fierce competition from local Chinese suppliers, the fact that Enteq's products have a proven track record of operating up to 175$^{O}$c, whereas the local products can only manage up to 150$^{O}$c, gave us a significant competitive advantage.

The full year gross margin was 61%, down from last year's 65%, due to a combination of a lower proportion of the higher margin rental revenue and a higher proportion of the lower margin mechanical component sales this year.

Total operational overheads, at $3.5m, was down 17% on last year's figure. This reflected the reduction in the headcount numbers during the year, plus a continued focus on cost control.

The combined depreciation and amortisation charge was up on the previous year due to an additional $0.7m being spent on new rental kits combined with the underlying age profile of the historic rental fleet. The number of kits at 31 March 2020 was 17, a net reduction of 15 since the previous year end due to a number of kits coming to the end of their rental period, with ownership passing to the renter on receipt of the final rental payment, Pleasingly, no kits were returned during the year ahead of the full rental period.

The "Other charges" shown above relate, primarily, to the non-cash cost associated with the Performance Share Plan.

As previously mentioned, the year-end figures included an exceptional charge of $7.3m. This included a $4.2m write off of all the new product development projects previous capitalised in Intangible assets, except for work on the rotary steerable system acquired under license from Shell Global Solutions in September 2019. A charge of $2.7m was taken as a write down of the carrying values of the majority of finished products held in inventory. Both these charges relate to the continuing uncertainty surrounding the future trading conditions that Enteq faces, until the global oil and gas market stabilises, the timing of which is unknown. A further $0.1m relates to severance payments made to the US employees that were made redundant as a direct result of the mid-March oil price collapse.

## Statement of Financial Position

Enteq's net assets at the financial year-end comprised of the following items:

| As at 31 March: | *2020* | *2019* |
|---|---|---|
| | *$million* | *$million* |
| Intangible assets | 0.1 | 2.4 |
| Property, plant & equipment | 2.4 | 2.5 |
| Rental fleet | 1.0 | 3.4 |
| Net working capital | 3.0 | 3.8 |
| Cash | 10.2 | 11.9 |
| **Net assets** | **16.7** | **24.0** |

As mentioned above the "Intangible assets" now solely represents the value of the on-going R&D work on the rotary steerable system, carried out by the UK based engineering team. The decrease during the year to $0.1m relates to the net of the ongoing development of various new products up until the mid-March downturn, less the $4.2m write down.

The net book value of property, plant & equipment at $2.4m is the net of the $0.2m invested in replacing production equipment at South Houston, being offset by the depreciation charge.

The decrease in the net book value of the rental fleet reflects the net reduction of 15 during the year, as previously mentioned.

The $0.8m decrease in net working capital is due, primarily, to the $2.7m inventory write down countered by an increase in trade debtors due to strong sales in January and February.

## Cash flows

| Year to 31 March: | *2020* | *2019* |
|---|---|---|
| | *$ million* | *$ million* |
| **Adjusted EBITDA** | **3.1** | **2.5** |
| Change in net operational working capital | (2.2) | (1.5) |
| **Operational cash generated** | **0.9** | **1.0** |
| Investment in rental fleet | (0.7) | (3.8) |
| Investment in R&D | (2.2) | (1.3) |
| CAPEX | (0.2) | (0.2) |
| Interest and share issues | 0.5 | 0.7 |
| **Net cash movement** | **(1.7)** | **(3.6)** |
| Opening cash balances | 11.9 | 15.5 |
| **Closing cash balances** | **10.2** | **11.9** |

Whilst the Group delivered an improved adjusted EBITDA for the year, the investment in operational working capital during the year meant that $0.9m of operational cash was created, broadly similar to last year.

The continuing robustness of the balance sheet enabled further expansion of Enteq's market share through further investment to increase the number of kits in the rental fleet.

The increase in R&D spend reflected the increased focus on engineering projects up until the unforeseen downturn in March.

The CAPEX relates to the replacing of various production related equipment.

Overall, the Group saw a net cash outflow of $1.7m (2019: $3.6m) reducing the Group's closing cash balance as at 31 March 2020 to $10.2m.

**Financial Capital Management**

Enteq's financial position continues to be robust. Enteq had no bank borrowings, or other debt, and had a closing cash position of $10.2m as at 31 March 2020.

Enteq monitors its cash balances daily and operates under treasury policies and procedures which are set by the Board.

The financial statements are presented in US dollars as the Company's primary economic environment, in which it operates and generates cash flows, is one of US dollars. Apart from its UK based overhead costs, substantially all other transactions are transacted in US dollars.

Enteq is subject to the foreign exchange rate fluctuations to the extent that it holds non-US Dollar cash deposits. The year-end GBP denominated holdings are approximately 11% of total cash holdings, up from the 1% of last year's balance. The increase was due to taking advantage of the favourable exchange rate during the mid-March turmoil to sell $1.0m for GBP.

**Annual General Meeting**

In light of ongoing Government advice to restrict all non-essential travel and social contact, the AGM will take place on 29 September 2020 at 12.00 noon in the Company's office in Amersham with the minimum quorum of attendees facilitated by the Company.

**David Steel**

Finance Director

30 June 2020

## Review of Principal Risks and Uncertainties

The Board is responsible for the Group's risk management and during the year has undertaken a systematic review of the key risks and uncertainties which face the Group. The Board establishes the framework for risk management across the Group. It seeks to embed risk management and to facilitate the implementation of risk management measures throughout the Group's businesses. The Board refines its view of risks on an on-going basis and as the Group's businesses enter new markets and develop new products. A risk register is regularly updated and reviewed by the Board, the last review being in April 2020.

The Directors believe the following risks, as set out in the Risk Register, to be the most significant for the Group. The mitigating activities described below will help to reduce the likelihood or impact of each risk occurring, although the Board recognises that it will not be possible to eliminate these risks entirely. The risks listed do not necessarily comprise all those relating to the Group's operations, or with an investment in the Group.

If any of the following risks were to materialise, the Group's businesses, financial condition, results or future operations could be materially adversely affected.

### INDUSTRY SPECIFIC RISKS

**Fluctuations in oil and gas prices**
Short-term fluctuations in oil and gas prices may lead to uncertainty in the oil and gas industry which can lead to reduced investment in equipment by the Group's customers. In addition, a longer-term fall in oil and gas prices could reduce levels of cash flow in the industry which could in turn lead to the reduction or deferral of expenditure in the reach and recovery market.

Although not under the Board's control, the Board actively monitors key energy commodity prices and other industry parameters and if appropriate, acts expeditiously to manage costs and working capital as necessary.

The drastic oil price reduction seen in mid-March resulted in swift management action to minimise both the on-going cost base and cash drain.

**Economic fluctuations in territories where the Group's products are used**
Economic fluctuations in territories where the Group's products are used create uncertainty and discourage investment. The Group's products are used by service companies, which may deploy its equipment and services in territories outside their national markets. Fluctuations in such territories could reduce the market size for the Group's products.

As announced in the trading update on 8 April 2020, the combined and inter-related impact of both the COVID-19 virus spreading and the recent drastic reduction in the oil price has had a significant impact on Enteq's current and future trading environment.

Management and the Board, using their experience and judgment, monitor political and economic developments as appropriate in order to minimise, where possible, the impact of such adverse events on the Group. Further, the Group's strategy of diversifying its customers, product lines and geographic markets helps to mitigate these risks.

### RISKS RELATING TO THE GROUP'S STRATEGY

**Acquisition opportunities**
The Board continues to adopt a cautious approach to acquisition opportunities. The Board continues to monitor and assess potential earning enhancing acquisitions.

### GROUP SPECIFIC RISKS

**Dependence on key personnel**
The future success of the Group is substantially dependent on the continued services and continuing contributions of its Directors and key employees. The loss of the services of any of its Directors or other key employees could have a material adverse effect on the Group.

The Board believes dependence on key personnel is an acceptable risk. However, the Board periodically reviews the capability and availability of the necessary skills to manage the Group and will seek suitable replacements or additions where appropriate.

With the decrease in staff numbers during the year, this risk has increased. The Board continues to balance this risk with the requirement to keep overhead spend constantly under review.

**Dependence on key customers**
The Group is dependent on a relatively small number of key customers and the size of any individual order may be substantial. The timing of these orders may materially impact on the Group results. With the current difficulties in the North American market any significant loss of business due to a North America based customer going out of business could only be mitigated by a corresponding increase in revenue coming from markets outside North America In order to mitigate this risk in addition to active management of key customer relationships, the Group's strategy also involves broadening the customer base especially outside North America,.

**Cash balances**
The level of the Group's cash balance gives the Board significant comfort as to the future viability of the Group. The majority of cash is held in deposit accounts in USD.

**NON-SPECIFIC RISK FACTORS**

**Health, Safety & Environment**
Safety is one of our core priorities. The Group is subject to a number of Health, Safety & Environment ("HSE") laws and regulations that affect its operations, facilities and products in each of the jurisdictions in which it operates. The Group is committed to operating in compliance with all HSE laws and regulations relating to its products, operations and business activities. However, there is a risk that it may have to incur unforeseen expenditures to cover HSE liabilities, to maintain compliance with current or future HSE laws and regulations or to undertake any necessary remedy.

The Board closely monitors safety reporting and HSE compliance both at each monthly meeting and during visits to the Group's businesses. The group has the appropriate insurance policies in place to cover any actions brought against related to breaches in health and safety.

**Infringement upon intellectual property rights**
Patents and/or Know-How owned by the Group may be challenged by third parties and may not be enforceable in certain parts of the world. In addition, agreements concerning intellectual property rights entered into by the Group could be terminated and may have an adverse effect upon the Group's business.

Where appropriate the Group protects the validity of its intellectual property via thorough patent and trademark applications and will robustly defend any claims against it, if appropriate.

**Business Interruption**
Business interruption may occur as a result of a number of events, which are either within or outside the Group's control. These include: the failure or unavailability of operational and IT infrastructure; delay or interruptions in the availability of products or services provided by third-party suppliers and natural disasters such as earthquake, flooding and storms.

Mitigation is achieved by having a business continuity plan, relevant insurances and managing dependence on key supplier relationships.

**Threats to Cyber security**
A compromise of the Group's IT systems could cause significant disruption in production, shipments and cash collection and lead to financial, intellectual property or commercially sensitive data losses.

The Group is mindful of the risk of cyber-attacks and breaches of cyber security. The company maintains appropriate controls (such as IT system password protection, managing user access and privileges, malware protection and network security) and compliance with relevant data protection regulations.

The Strategic Report set out on pages 4 to 11 was approved by the Board of Directors on 30 June and signed on its behalf by:

**Martin Perry**

Chief Executive Officer

30 June 2020

# Corporate Social Responsibility

Enteq is committed to developing relationships with its key stakeholders – employees, shareholders, customers, suppliers and communities within the areas we operate. This report describes the policies and responsibilities which Enteq has adopted to ensure that it is and remains a responsible global corporate citizen.

Our commitment to shareholders, employees and other key stakeholders is to create a sustainable organisation, capable of delivering long-term positive returns and providing stability to our employees.

The Group has implemented key policies in respect of:

- Anti-bribery and Corruption
- Embargo compliance
- Data protection and privacy
- Corporate ethics & standards code of conduct, including employee 'speak up' policy

In addition, the Group has implemented procedures to ensure that it:

- communicates appropriately with shareholders and employees;
- meets all health, safety and environmental legislative requirements; and
- meets the highest standards of business ethics in all its dealings, including strict compliance with both UK and US legislation introduced to prevent bribery

**Investor Communications**

Communicating with the Company's shareholders is of key importance to the Directors. We do so by press releases, issued via the London Stock Exchange and institutional investor presentations. The Chief Executive and Finance Director meet with major shareholders at least twice a year, following the announcement of the Group's half and full year results.

**Employees**

We continue to recognise that our employees are our most valuable asset. Both senior and local management have ensured that all staff are kept informed of the changes to our trading patterns and fully explained the reasons behind the actions taken during the year. As at 31 March 2020, the Group had 19 employees (2019: 33).

**Health and Safety**

The Group is committed to achieving and maintaining the highest standards of safety for its employees, customers, suppliers and the public. Enteq aims for best practice and employs rigorous health and safety practices.
Health and Safety policies include:

- Regular audit and maintenance reviews of facilities, equipment, practices and procedures to ensure compliance with prevailing standards and legislation and a safe environment for all those who work within and around our facilities.
- Seeking accreditation and alignment with internationally recognised Quality Assurance standards.
- Monitoring and reporting to each Board meeting.
- Appropriate training and education of all staff.

The Group's target is to achieve zero recordable incidents. Each local business is required to develop tailored policies to reflect its daily business. These incorporate the Group's approach to putting safety first and, at a minimum, to comply with local regulatory requirements.

During the year, there were no fatalities across the Group's operations with just one reportable incident (2019: nil). The appropriate corrective action was taken following this reportable incident.

**Environment**

The Group is committed to the protection of the environment and developing manufacturing processes and procedures which ensure that any adverse effects on the environment are kept to a practicable minimum. We take the view that sustainable development is in the interests of all our stakeholders and include environmental issues in our planning and decision-making.

The Group's environmental policy is to look for opportunities and adopt practices that create a safer and cleaner environment. We are particularly sensitive to the challenges for the industry in which we operate.

Key aspects of our environmental policies include:

- Keeping any adverse effects on the environment to a practicable minimum.
- Encouraging the reduction of waste and emissions and promoting awareness of recycled materials and use of renewable resources.
- Encouraging employees to pay special regard to environmental issues and requirements in the communities in which the Group operates.
- Incorporating health, safety and environment considerations into the design of new facilities.

**Business Ethics**

The Group's Directors and employees promote the highest standards of honesty and integrity in the way it goes about its business, recognising that the Group's reputation is of critical importance in the industry in which we operate.

Through the Group's Code of Conduct and compliance with the UK Bribery Act and the US Foreign and Corrupt Practices Act, the Group has policies and controls in place detailing procedures on how the Group interacts with customers, suppliers and governments around the world. These include a Global Gift and Entertainment Guideline which codifies the standards and conduct which we set for our employees' interactions with customers, suppliers and other external parties.

**David Steel**

Company Secretary

30 June 2020

# Report of the Directors

*For the year to 31 March 2020*

The directors present their report with the financial statements of the Group and the Company for the year to 31 March 2020.

**DIRECTORS**
The directors holding office at the year-end are as follows:

**Martin Perry** ***Chief Executive Officer***
Martin Perry (58), formerly CEO of Sondex. Martin entered the oil industry in 1984, initially as a field engineer after gaining an engineering degree at Exeter University. Martin then worked in the IT and Data Communications industry, before leading the Management Buy Out at Sondex. Following the acquisition of Sondex by GE in 2007, Martin was appointed CEO of GE's Oilfield Technologies Division and subsequently served as Non-Executive Chairman of 3 private equity-backed businesses.

**David Steel** ***Finance Director***
David Steel (59), is a Chartered Accountant who qualified in KPMG's London office. David has held senior finance positions in a wide variety of industries including international trade exhibitions and aerospace manufacturing. Prior to joining Enteq he was Deputy Finance Director of a global provider of geoprediction tools to the upstream oil and gas industry.

**Iain Paterson** ***Non-Executive Chairman***
Iain Paterson (73), formerly Chairman of Sondex and HYVE Group plc, Non-Executive Director of Hunting plc, Paladin Resources, MOL NyRt and of the Advisory Board of the Oman Oil Company, Iain has over 45 years' experience in the oil industry. He held senior management positions at BP and was a main Board director of Enterprise Oil plc. Iain also chairs the Company's Nomination Committee.

**Neil Hartley** ***Non-Executive Director***
Neil Hartley (54), Formerly with First Reserve Corporation, a leading global private equity investment firm exclusively focused on energy. He has held senior positions with McKinsey & Company and Simmons & Company International. Neil chairs both the Company's Audit and Remuneration Committees.

As Neil Hartley joined the Board on 24 March 2020, he requires election at the forthcoming Annual General Meeting. All other Directors require re-election at the same meeting.

Under s172 of the Companies Act 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 Group's long-term strategic objectives, including progress made during the year and principal risks to these objectives have been addressed both in the Strategic Report and the Review of Principal Risks and Uncertainties.
- the interests of the company's employees.
    - The Group's employees are fundamental to the achievement of Enteq's long-term strategic objectives as more fully disclosed in the Strategic Review.
- the need to foster the company's business relationships with suppliers, customers and others,
    - A consideration of the Group's relationship with wider stakeholders and their impact on our long-term strategic objectives is also disclosed in the Strategic Review.
- the impact of the company's operations on the community and the environment.
    - The Group operates honestly and transparently. Consideration of the impact on the environment of is assessed on a regular basis.
- the desirability of the company maintaining a reputation for high standards of business conduct.
    - The Group's intention is to behave in a responsible manner, operating within the high standard of business conduct and good corporate governance .
- the need to act fairly as between members of the company.
    - The Group's intention is to behave responsibly towards all shareholders and treat them fairly and equally, so that they too may benefit from the successful delivery of the Group's strategic objectives.

**Dividends**
No dividends will be distributed for the year ended 31 March 2020 (year ended 31 March 2019: nil).

**Changes in the Group during the Financial Year**
There were no changes during the current financial year.

**Post Balance Sheet Events**
The impact of both COVID-19 and the significant deterioration in the oil and gas drilling market, particular in North America has not resulted in any reportable post balance sheet events as at the date of this report.

**Research and Development**
The Company maintains its commitment to research and development through the activities undertaken by the Engineering team, based both in the South Houston and locations in the United Kingdom.

**Risks and uncertainties**
A review of the key risks and uncertainties affecting the Group is set out on pages 10 and 11. The Group's exposure to key financial risks is set out in note 25 to the financial statements, see page 56.

**Directors' and Officers' Liability Insurance**
The Company maintains insurance against certain liabilities, which could arise from a negligent act or a breach of duty by its Directors and Officers in the discharge of their duties. This is a qualifying third-party indemnity provision, which was in force throughout the financial year.

**Future developments**
A key future development will be a focus of the creation of innotive technologies such as the rotary steerable system which has been referenced in the strategic review.

**Annual General Meeting**
In light of ongoing Government advice to restrict all non-essential travel and social contact, the AGM will take place at the Company's office in Amersham with the minimum quorum of attendees facilitated by the Company. Physical attendance by other shareholders will not be permitted, however, shareholders will be encouraged to vote on the AGM resolutions electronically and also have the opportunity to submit questions on the AGM resolutions electronically before the meeting and such questions, limited to matters relating to the business of the AGM itself, should be sent to Mgmt@enteq.com. Further details of the resolutions are set out in the letter concerning the Annual General Meeting, which accompanies the Notice of the Annual General Meeting.

**Powers of the Directors**
Subject to the Company's Articles of Association, UK legislation and any directions prescribed by resolution of the Company in general meeting, the business of the Company is managed by the Board. The Directors have been authorised to allot and issue Ordinary shares and to make market purchases of the Company's Ordinary shares. These powers are exercised under authority of resolutions of the Company as adopted at incorporation.

**Share Capital**
The Company's issued share capital comprises Ordinary shares of 1p each. As at 31 March 2020, there were 65,488,644 Ordinary shares. The movements in share capital during the year are set out in note 18.

**Voting Rights and Restrictions on Transfer of Shares**
On a show of hands at a general meeting of the Company, every holder of Ordinary shares present in person or by proxy, and entitled to vote, has one vote, and, on a poll, every member present in person or by proxy and entitled to vote has one vote for every Ordinary share held. The holders of the Incentive shares have no rights to vote or receive dividends. Further details regarding voting at the Annual General Meeting can be found in the notes to the Notice of the Annual General Meeting. None of the Ordinary shares carry any special rights with regard to control of the Company. Proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting.

A shareholder can lose his entitlement to vote at a general meeting where that shareholder has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares. Shareholder's rights to transfer shares are subject to the Company's Articles of Association.

**Political Donations**
During the year the Company made no political donations.

**Registrar**
The address and contact details of Computershare, the Company's Registrar, are listed at the front of this report. Computershare is the Company's single alternative inspection location, whereby individuals can inspect the register of members. Individual shareholders may view their personal shareholder information online, through the www.computershare.co.uk website.

**Articles of Association**
The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders. Where class rights are varied, such amendments must be approved by the members of each class of share separately.

**Statement of Directors' Responsibilities**
The directors are responsible for preparing the Strategic Report, the Report of the Directors 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 Financial Reporting Standards ("IFRS") as adopted by the European Union and have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 – 'The Reduced Disclosure Framework' (FRS 101) and applicable laws including 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 Company and the Group and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Statement as to Disclosure of Information to Auditors**
The directors confirm that, in so far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

**Going Concern**
At 31 March 2020 the Group has cash balances of $10.2m and no debt.

The impact of both COVID-19 and the significant deterioration in the oil and gas drilling market, particular in North America have been fully factored into various financial scenarios relating to future trading. The output of this modelling demonstrates that even in the case of a significant reduction in revenue the corresponding cost reduction measures and reduction in CAPEX and development spend will enable the Group to retain significant cash balances in both the near and medium term. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

The uncertainty as to the future impact on the Group of the recent Covid-19 outbreak in particular has been considered as part of the Group's adoption of the going concern basis. To date, we have not observed any material impact on our activities due to Covid-19 over and above that of the significant reduction in the North America rig count since the start of March 2020 and, indeed, the recently announced $1.0m contract ward in China demonstrates the robustness of the post Covid-19 oil and gas drilling market in that country.

All the staff at the Group's Houston based facility has recently returned to work after an implementation of revised safe working practices in view of Covid-19 concerns. As at the date of this report the UK based staff continue to work remotely.

**Auditors**
Grant Thornton UK LLP will be proposed for reappointment at the forthcoming Annual General Meeting in accordance with Section 489(4) of the Companies Act 2006.

Signed on behalf of the Board

**David Steel**

Company Secretary

30 June 2020

# Remuneration Committee Report

*For the year to 31 March 2020*

**Introduction**
The Company is AIM-listed and therefore is not legally required to set out its remuneration policy but it is doing so on a voluntary basis. To the extent that such principles are relevant to the current circumstances of the Company, the provisions of inter alia the Directors' Remuneration Report Regulations 2008 and the Quoted Company Alliance Code are taken into account. As required by AIM Rule 19, the Company has disclosed the remuneration received by its directors during the financial period.

**Remuneration Committee**
The Remuneration Committee is responsible for determining the remuneration of the chairman and the executive directors, including setting competitive salaries, annual performance targets and participation in the Company's executive share-based incentive plans. The Committee also takes account of the remuneration policy for the Group's senior executives.

**Remuneration policy**
The Company's remuneration policy aims to encourage a performance-based culture, attract and retain high calibre executive directors and align executive directors' and shareholders' interests. In determining such policy, the Remuneration Committee takes into account all factors which it deems necessary, including the Company's wider pay structures. The objective of the policy is to ensure that executive management are provided with appropriate incentives to encourage enhanced long-term performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company.

The remuneration policy of the Company has a number of principal components:

**Salary and benefits**
Basic salaries are determined by the Remuneration Committee bearing in mind the salaries paid in AIM-listed and other same-sector companies. Executive directors also receive taxable benefits including life insurance policies and healthcare.

The Remuneration Committee has considered the requirements of the UK Corporate Governance Code (April 2016) to set an upper limit for executive pay levels. However, the committee also recognises the need to attract and incentivise management and therefore does not believe it is appropriate to set such limits at this stage of the Group's development, although the appropriateness of all incentive packages are considered by the Committee. Any bonus will be subject to Remuneration Committee approval. The Remuneration Committee will continue to monitor this policy.

**Annual Bonus Plan**
The annual grant of bonuses is conditional upon the achievement of targets by reference to agreed financial performance measures. The scheme is applicable to all executive directors. For the financial year ended 31 March 2020, the targets related to the group achieving the following targets: an underlying adjusted EBITDA at least equal to the Board approved budget; a specific year-end cash balance; acquiring a certain number of new customers and the launch of new technologies. All financial targets were achieved and, thus, the Remuneration Committee decided to pay the full amount as provided under the scheme.

**Long-term Incentive and Share Option plans**
The Company believes that employee share ownership strengthens the link between their personal interests and those of the shareholders. Consequently, the Company has put in place a Share Option Plan. All Group employees participate in the Plan, except for members of the Board and two senior executives. The executive directors (Martin Perry and David Steel) plus three senior executives are incentivised via the PSP scheme (see below).

On 17 September 2014, the Company introduced a Performance Share Plan ("PSP") for the Executive Directors and other key senior executives. The Remuneration Committee were given the power to grant awards at the nominal value of the shares, but the exercise of which is subject to certain performance conditions. Such awards will lapse if not exercised within 10 years of grant. The participants in this Plan are no longer eligible for awards under the Share Option Plan or other Long-term Incentive Plan. The details of the grants awarded under all incentive plans, to date, are shown in a table on page 20.

**Directors' service contracts**
All executive directors are employed under service contracts. The services of all executive directors may be terminated by the provision of a maximum of 12 months' notice by the Company and the individual. Services of Non-Executive directors may be terminated by the provision of a maximum of 3 months' notice by the Company and the individual.

**Directors' remuneration**
The information contained within the Directors' Remuneration section of this report has been audited.

The annual remuneration rates of the directors in office during the year ended 31 March 2020 were as follows (all salaries denominated in £ Sterling have been converted to US dollars):

| | Annual Salaries, Fees, Bonus and Benefits *31/03/2020* [a] | Actual amounts paid during the year to *31/03/2020* [b] | Annual Salaries, Fees, Bonus and Benefits *31/03/2019* [a] | Actual amounts paid during the year to *31/03/2019* [b] |
|---|---|---|---|---|
| | *$ 000's* | *$ 000's* | *$ 000's* | *$ 000's* |
| Martin Perry | 501 | 787 | 613 | 727 |
| David Steel | 308 | 408 | 362 | 382 |
| **Total - Executive** | **809** | **1,195** | **975** | **1,109** |
| Iain Paterson | 38 | 44 | 39 | 42 |
| Robin Pinchbeck *– to 24 March* | 38 | 44 | 39 | 42 |
| Neil Hartley *– from 24 March* | - | - | - | - |
| **Total – Non executive** | **76** | **88** | **78** | **84** |
| **Total** | **885** | **1,283** | **1,053** | **1,193** |

Notes:

*a* *includes share-based payments and bonuses awards to be paid in following year*

*b* *includes payments relating to the previous year*

From 1st February 2015, elements of the Board's remuneration were agreed to be settled in shares rather than cash. The following elements of Board members' compensation were settled in shares during year:

| | 31 March 2020 *$ 000's* | 31 March 2019 *$ 000's* |
|---|---|---|
| Martin Perry | 256 | 415 |
| David Steel | 125 | 200 |
| **Total - Executive** | **381** | **615** |
| Iain Paterson | - | 42 |
| Robin Pinchbeck *– to 24 March* | - | 42 |
| Neil Hartley *– from 24 March* | - | - |
| **Total – Non executive** | **-** | **84** |
| **Total** | **381** | **699** |

**Interests in PSP and share options**

| | Number of PSP Options at 31/3/20 | Number of PSP Options at 31/3/19 | Vesting dates |
|---|---|---|---|
| Martin Perry | - | 457,692 | June 2019 *(exercised)* |
| David Steel | - | 230,769 | June 2019 *(exercised)* |
| Martin Perry | 540,000 | 540,000 | June 2020 |
| David Steel | 270,000 | 270,000 | June 2020 |
| Martin Perry | 714,286 | 714,286 | June 2021 |
| David Steel | 367,347 | 367,347 | June 2021 |
| Martin Perry | 495,629 | - | June 2022 |
| David Steel | 254,895 | - | June 2022 |
| **Total** | **2,642,157** | **2,580,094** | |

The performance conditions for each of the PSP awards are as follows:

| Vesting Date: | June 2020 | June 2021 | June 2022 |
|---|---|---|---|
| Proportion awarded for compound annual growth rate in Total Shareholder Return (“TSR”) * of: | | | |
| 30% or greater | n/a | 100% | 100% |
| 10% | n/a | 33% | 33% |
| Less than 10% | n/a | 0% | 0% |
| *Note: Award pro- rated if growth between 10% and 30%* | | | |
| Proportion awarded for adjusted EBITDA: | | | |
| Maximum of range achieved | 100% | 100% | 100% |
| Minimum of range achieved | 33% | 33% | 33% |
| Weighting: | | | |
| TSR (share price) growth | n/a | 50% | 50% |
| Adjusted EBITDA | 100% | 50% | 50% |
| Start point: | | | |
| TSR (share price) growth | n/a | 24.5p | 28.6p |
| Adjusted EBITDA range | \$1.5m to \$3.7m | \$2.5m to \$4.7m | \$3.75m to \$7.5m |

The total amount to be expensed over the vesting period of all the above options is determined by reference to the fair value at the date of granting and the number of awards that are expected to vest.

** The TSR is defined as the difference between the share price on the date of the award (plus the sum of all dividends paid by the Company on one ordinary share during the three-year measurement period) and the share price on the measurement date.*

**Interests in warrants**
There were no interests held by directors or persons connected to the directors in warrants over shares in Enteq Upstream Plc at 31 March 2020.

**Highest paid director**
The Companies Act 2006 requires certain disclosures about remuneration of the highest paid director taking into account emoluments, gains in exercise of share options and amounts receivable under long-term incentive schemes. Details of this remuneration are set out above.

**Neil Hartley**

Chairman of the Remuneration Committee

30 June 2020

# Corporate Governance Report

This report for shareholders sets out Enteq Upstream Plc's approach to Corporate Governance. We have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code (April 2016) we consider to be relevant to the company.

**Board Composition**

The Board of Enteq Upstream plc is responsible for determining strategic direction and reviewing management and operational performance. Operational performance is delegated to the Executive Directors, who meet regularly to review the performance of and prospects for the business. The composition of the Board as at 31 March 2020 is set out below.

| | | Board | Audit committee | Remuneration committee | Nomination committee |
|---|---|---|---|---|---|
| Martin Perry | Chief Executive Officer | *Member* | - | - | *Member* |
| David Steel | Finance Director | *Member* | - | - | - |
| Iain Paterson | Non-Executive Director | *Chairman* | *Member* | *Member* | *Chairman* |
| Neil Hartley | Non-Executive Director | *Member* | *Chairman* | *Chairman* | *Member* |

David Steel also acts as the Company secretary and, therefore, this role is not independent of the Board.

In the year the under review the Board formally met on 13 scheduled occasions, with additional meetings and conference calls held as deemed necessary. All the directors attended every meeting.

The division of responsibilities between Iain Paterson, Chairman, and Martin Perry, CEO, has been clearly established by way of written role statements, which have been prepared by the Board. The Chairman's main responsibilities are to lead the Board, liaising as necessary with the CEO on developments between meetings of the Board, and to ensure the CEO and his executive management team have appropriate objectives and that their performances against those objectives are reviewed. The CEO is responsible to the Board for the executive management of the Group and for liaising with the Chairman and keeping him informed on all matters.

**Board Evaluation**

Between the year end and the date of signing these accounts a Board evaluation was carried out by both the Non-Executive and Executive Directors. The Board was regarded as effective and possessed sufficient skills and experience to enable it to discharge its responsibilities appropriately. The evaluation further confirms the Board's belief that the Board balance and the composition of each main Board Committee is appropriate. In reviewing the Board, it was concluded that the skills and experience the Executive Directors bring to the Board are complementary to each other and those of the Non-Executive Directors.

**Board Committees**

The Board has three main committees to which it delegates responsibility and authority.

**Audit Committee**

The Audit Committee comprises solely of Non-Executive Directors of the Company. Whilst no members of the committee have direct, recent financial experience with Neil Hartley joining the Board as Chairman of the Audit Committee it is considered that the skills necessary to fulfil their duties have increased during the year. In addition, financial advice is available externally as and when they require it. The committee has met twice during the year under review.

*Responsibilities*
The responsibilities of the Audit Committee are set out on page 21.

*External audit*
The external auditors' full year report includes a statement on their independence, their ability to remain objective and to undertake an effective audit. The committee considers and assesses this independence statement on behalf of the Board taking into account the level of fees paid particularly for non-audit services. The committee considers the effectiveness of the audit by reviewing and taking account of Financial Reporting Council reports on the auditors; input from executive management; consideration of responses to questions from the audit committee and the audit findings reported to the committee.

Grant Thornton UK LLP have been the Group's auditor since incorporation. The Audit Committee is satisfied with their effectiveness and their independence and has, to date, not considered it necessary to require an independent tender process.

The committee closely monitors fees paid to the auditors in respect of non-audit services, which are analysed within note 9 on page 49. In 2020, fees for non-audit services totalled $183k in comparison to audit fees of $88k. The scope and extent of non-audit work undertaken by the external auditor is monitored by, and, above certain thresholds, requires prior approval from the committee to ensure that the provision of such services does not impair their independence or objectivity.

*Internal audit*
To date, the Board has not considered it necessary or cost effective to employ a separate internal audit team. The senior finance team carries out reviews on an on-going basis. These reviews are available to the Committee and encompass the identification of the key business, financial, compliance and operational risks facing each operating location, together with an assessment of the controls in place for managing and mitigating these risks. The committee will continue to monitor the need for a separate internal audit function.

**Remuneration Committee**
The Remuneration Committee comprises solely of Non-Executive Directors of the Company and is responsible for reviewing remuneration arrangements for the Board and other senior employees of the Group and for providing general guidance on aspects of remuneration policy for the Group. The committee met four times during the year under review.

**Nomination Committee**
The Nomination Committee is responsible for reviewing and recommending executive and Non-Executive Board appointments for the Group. The committee met once during the year under review.

Prior to the appointment of a Director, the Nomination Committee undertakes an evaluation of the Board's requirements to ensure the balance of skill and experience is maintained to fulfil the Group's strategy. When considering appointments due consideration is also given to the diversity of the Board to ensure there is an appropriate mix of experience and skill to enable the Board to operate as effectively as possible.

In accordance with the Corporate Governance Code's guidance for non-FTSE 350 companies on the re-election of directors and the articles of association of the Company, all directors are subject to re-election at the first annual general meeting after their appointment, and to re-election thereafter on a triennial basis.

**Internal Controls**
The Board acknowledges its responsibility for the Group’s system of internal control, for reviewing its effectiveness and for compliance with relevant legislation. The internal control system, which has been in place throughout the year under review, is structured to allow the Board to identify, evaluate and manage the significant risks to which the Group is exposed. The system comprises the following elements:

- Management Structure – within operational parameters set by the Board, management is delegated to the Executive Directors. The Executive Directors meet and communicate regularly with the Board to ensure a thorough and consistent flow of information about the business.
- Reporting and Consolidation – the Group receives detailed financial information from subsidiaries, which take the form of monthly management accounts, annual budgets and forecast projections. The Group also monitors and reviews new UK Listing Rules, Disclosure and Transparency Rules, accounting standards, interpretations and amendments and legislation and other statutory requirements. Subsidiary reporting entities are supported by instruction from the Group. Data is subject to review and assessment by management through the monitoring of key performance ratios and comparison to targets and budgets. The content and format of reporting is kept under review and periodically amended to ensure appropriate information is available.
- Strategic Planning and Budgeting – strategic plans and budgets containing comprehensive financial projections are formally presented to the Board for consideration and form the basis for monitoring performance.
- Legislative Compliance and Codes of Conduct – the Group has and is implementing procedures to ensure it meets its legislative and other responsibilities. The Group has implemented formal procedures including the publication of bribery and corruption policies and guidelines on interacting with customers, suppliers and agents, as well as policies for gifts, entertainment and hospitality.

The Directors recognise the value and importance of maintaining the highest standards of corporate governance. To this effect, on 10 July 2018, the Board agreed that the Quoted Companies Alliance’s (“QCA”) code of corporate governance was the most appropriate for Enteq Upstream plc to follow, and so, was formally adopted. The main principles of the QCA Code and how Enteq ensures that it is fully compliant with these principles are set out below:

- Establish a strategy and business model which promote long-term value for shareholders;
    - Enteq has an established strategy and business model supplying the global Oil & Gas directional drilling market with high-end, differentiated, robust Measurement While Drilling equipment and associated parts and components. Both the strategy and business model are subject to Board review on at least an annual basis to ensure that they provide the most appropriate way to provide long-term value for shareholders.

- Seek to understand and meet shareholder needs and expectations;
    - The Executive Directors offer to meet the major shareholders after the announcement of both the year end and interim results. As well as presenting an explanation of these results, these meetings give the shareholders an opportunity to inform the Directors of both their needs and expectations. The AGM is an opportunity for all shareholders to present their views to the whole Board. The Chairman is also available to meet shareholders at any time.

- Consider wider stakeholder and social responsibilities and their implications for long-term success;
    - Regular meetings are held with the staff to ensure that the strategic vision of the company is clearly presented.
    - Meetings are held with other stakeholders as required.
    - The manufacturing plant regularly re-assesses its impact on the environment and implements the appropriate procedures minimise any adverse effects.
    - Regular Health and Safety meetings are held with all staff to minimise the likelihood of any accidents and “near misses”.

- Embed effective risk management, considering both opportunities and threats, throughout the organisation;
    - The Board is responsible for the Group's risk management and undertakes a systematic review of the key risks and uncertainties which face the Group. It seeks to embed risk management and to facilitate the implementation of risk management measures throughout the Group’s businesses.
    - A comprehensive risk register is maintained, which is regularly reviewed by the Board.
    - Monthly reports relating to health and safety at work is presented to the Board.

- Maintain the board as a well-functioning, balanced team led by the chair;
    - A "Board Effectiveness Review" is completed annually, with the results debated at the appropriate Board meeting. This review includes an assessment of whether the Board has functioned in compliance with this principle through assessing, inter alia, directors' level of skills and experience, the Board's performance, review of company strategy, quantity and quality of board meetings.

- Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities;
    - In addition to being part of the "Board Effectiveness Review" outlined above, attendance at appropriate external training courses and seminars is encouraged.

- Evaluate board performance based on clear and relevant objectives, seeking continuous improvement;
    - A Board Effectiveness Review is carried out annually and is a rigorous process.

- Promote a corporate culture that is based on ethical values and behaviours;
    - There are formalised policies covering areas such as anti-bribery and corruption, embargo compliance.
    - There is a company-wide "speak up" policy covering breaches or potential breaches of our business principles, unlawful conduct, financial malpractice or dangers to the public and the environment.
    - The importance of ethical value and behaviours is included in the regular staff meetings mentioned above.

- Maintain governance structures and processes that are fit for purpose and support good decision-making by the board; and
    - In addition to the Board, that comprise two executive and two non-executive directors, the following sub-committees of the Board are in place, each having their own terms of reference and comprise solely of Non-Executive Directors of the Company, except for the Nomination Committee which includes the Chief Executive Officer:
    - 
        - Audit Committee whose main responsibilities are:
            - monitor and review reports from the Executive Directors, including the Group's financial statements and Stock Exchange announcements;
            - monitor and review the Group's systems of internal control;
            - review reports from the Group's external auditors;
            - monitor any corporate governance and accounting developments;
            - monitor the Group's bribery act compliance procedures;
            - consider and recommend to the Board the reappointment of the external auditor;
        - Remuneration Committee whose main responsibilities are reviewing remuneration arrangements for the Board and other senior employees of the Group and for providing general guidance on aspects of remuneration policy for the Group
        - Nomination Committee whose main responsibilities are the reviewing and recommending executive and Non-Executive Board appointments for the Group.

- Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.
    - The compliance with this principle has been addressed through regular meetings with investors and regular staff and other stakeholder meetings as outlined above.

**David Steel**

Company Secretary

30 June 2020

# Independent auditor's report to the members of Enteq Upstream plc

## Opinion

**Our opinion on the financial statements is unmodified**

We have audited the financial statements of Enteq Upstream plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the company statement of financial position, the company statement of changes in equity, and notes to the consolidated financial statements and notes to the company financial statements, each including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice), as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of matter – Inventory valuation

We draw attention to Note 16 to the financial statements, which describes the basis by which the directors have determined the net realisable value of inventory. As a result of various factors that have significantly impacted the markets in which Enteq operates, the directors have determined that less certainty and a higher degree of caution should be attached to the estimation of inventory net realisable value than would normally be the case. Our opinion is not modified in respect of this matter.

## The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Covid-19 is one of the most significant economic events currently faced by the UK, and at the date of this report it's effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group associated with these particular events.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the group's business model, including effects arising from macro-economic uncertainties such as Covid-19 and analysed how those risks might affect the group's resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group will continue in operation.

GrantThornton

**Overview of our audit approach**

- Overall materiality: $231,000 which represents approximately 2.1% of the group's total assets at the planning stage.
- The key audit matters identified were:
  - Occurrence of unpaid revenues arising from the sale of goods, and valuation of trade receivables
  - Valuation of inventory
  - Use of the going concern assumption
  - Valuation of intercompany balances (parent company only)
- We performed full scope audit procedures on the financial information of each of Enteq Upstream plc, the UK parent company and on the financial information of Enteq Upstream USA Inc, the significant group component in the USA.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our 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) that we identified. These matters included those that 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 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.

| Key Audit Matter - Group | How the matter was addressed in the audit – Group |
|---|---|
| **Occurrence of unpaid revenues arising from the sale of goods and valuation of trade receivables**<br><br>Total revenues in the year were \$10.903m, including \$6.112m from the sale of goods. In addition, \$1.770m of trade receivables were outstanding at the year end, the majority of which relate to the sale of goods. This key audit matter concerns unpaid revenue arising from the sale of goods.<br><br>The fall in the oil price coupled with the impacts of the COVID 19 pandemic around year end has caused there to be greater uncertainty around the recoverability of trade receivables. Enteq's trade receivables days are high, and certain customers have lengthy extended credit terms. Even though these extended terms are standard practice in the industry, it does raise a risk regarding recoverability of the balances, given the associated judgments regarding recoverability made by management.<br><br>At the same time, Enteq has been looking to expand its customer base, and so is working with new customers in unfamiliar territories as demonstrated by the increase in sales to customers based outside North America (up to \$3.244m from \$953k in the prior year). This can create judgments around the recoverability of receivable balances. It can also create judgments around the initial recognition of the revenue, given Enteq are establishing agreements with new customers which could lead to potential returns, in particular where there has been no payment due to the extended credit terms.<br><br>We therefore identified the occurrence of unpaid revenues arising from the sale of goods, and valuation of trade receivables, as a significant risk, and as one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br>• Testing the appropriateness of revenue recognition policies by comparing the policies adopted by management against IFRS 15 and best practice;<br>• Testing the application of the revenue recognition policies by testing a sample of unpaid revenue entries to supporting documentation including sales invoices and proof of delivery;<br>• Gaining and understanding of and inspecting revenue process and controls to consider whether they are designed effectively;<br>• Obtaining management's assessment of the recoverability of these balances, Inspecting and recalculating management's estimate of the bad debt provision and considering its reasonableness in line with IFRS 9, and corroborating it by reference to correspondence with counterparties, historic payment patterns and payments received since the year end;<br>• Evaluating management's ability to appropriately estimate the bad debt provision by comparing current year bad debt write-offs to previous provision estimates.<br><br>The group's accounting policies on revenues and receivables are shown in note 4, on pages 40 and 47 respectively, and related disclosures are included in note 15 on page 55.<br><br>**Key observations**<br>Based on the audit work described we have identified no issues over the occurrence of unpaid revenues, and the recoverability of associated receivables |

| Key Audit Matter – Parent | How the matter was addressed in the audit – Parent |
|---|---|
| **Valuation of inventory**<br><br>The inventory balance at the year-end stands at \$3.110m this is after a write down of \$2.700m which occurred in the current year. The directors make regular assessments on whether inventory is held at the correct value. | Our audit work included, but was not restricted to:<br>• Gaining an understanding of the key assumptions and judgements of the inventory write down and provisions posted by management.<br>• Corroborating management's assessment of the underlying market conditions and potential alternative markets and how that would affect the future sales value of inventory held at year end.<br>• Reviewing historical data on sales on and margins to corroborate the write downs posted by |

| Key Audit Matter – Parent | How the matter was addressed in the audit – Parent |
|---|---|
| The fall in oil price along with the effective closure of the North American oil market has caused there to be a significant risk that inventory is no longer held at the lower of cost and net realisable value. While the directors have taken the decision to write off a significant proportion of the inventory there is an uncertainty over the remaining carrying value and whether that value is representative of the actual net realisable value.<br><br>We therefore identified the valuation of inventory at year end, as a significant risk, and as one of the most significant assessed risks of material misstatement. | management, and discussing the impairment at length with management's experts, challenging assumptions made.<br>• Considering any post year-end sales occurring which might corroborate the written down value of the inventory.<br>• Challenging the level of provision by creating an auditor's expectation and comparing it to management's, the expectation of the provision level was based upon slow moving and obsolete inventory.<br>• Gaining an understanding of management's expert, and his expertise to assist in assessing the accuracy of the impairment made.<br>• Assessed the adequacy of disclosure around the impairment and the associated judgements<br><br>The group's accounting policies on inventory balances are shown in note 4, on page 47, and related disclosures are included in note 16 on page 56.<br><br>**Key observations**<br><br>Based on the procedures performed, we have identified no issues regarding director's valuation of inventory. We have nothing to report in addition to that stated in the 'Emphasis of matter – inventory valuation' section of our report |

| Key Audit Matter – Parent | How the matter was addressed in the audit – Parent |
|---|---|
| **Going concern**<br><br>As stated in 'the impact of macro-economic uncertainties on our audit' section of our report, Covid-19 is one of the most significant economic events currently faced by the world, combined with the recent drop in the oil market, and at the date of this report its effects are subject to unprecedented levels of uncertainty. These events could adversely impact the future trading performance of the group and as such increases the extent of judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements.<br><br>As such we identified going concern as a significant risk, which was one of the most significant assessed risks of material misstatement. | We undertook procedures to evaluate management's assessment of the impact of Covid-19 and the decrease in the oil market on the group's forecasted revenue and net assets. This included, but was not restricted to:<br>• We obtained managements original forecasts for the period to March 2023, and their revised forecasts to consider the impact of current market conditions with a "stress tested" scenario, setting out the worst case in managements estimation with significant reduction in revenue being achieved.<br>• We evaluated the assumptions applied, including the reduction in revenue, and the resulting effect on the forecasted revenue and net assets during the estimated period of impact, for reasonableness and determined whether they had been applied accurately. We also considered whether the assumptions are consistent with our understanding of the business.<br>• Assessing the reliability of management's forecasting by comparing the accuracy of actual financial performance to the forecast information;<br>• We assessed the wider macro-economic impact of COVID 19 and the oil downturn, and it's possible effect on the group's ability to continue as a going concern. |

| Key Audit Matter – Parent | How the matter was addressed in the audit – Parent |
| --- | --- |
| | • Assessing management's cash position to determine the impact of the pandemic on the net asset position. This assessment included the corroboration of mitigating actions taken by management to relevant documentation and evaluation of their application in the revised forecasts for accuracy;<br>• Performing sensitivity analysis on management's revised forecasts to determine the reduction in revenue and net assets that would lead to elimination of the headroom in their original cash flow forecasts; and<br>• Assessing the adequacy of the going concern disclosures included within the financial statements.<br><br>The group's accounting policy on going concern is shown in note 4, on page 39<br><br>**Key observations**<br>Based on the audit work described we have identified no issues over the going concern assumption used. |

| Key Audit Matter – Parent | How the matter was addressed in the audit – Parent |
| --- | --- |
| **Valuation of intercompany balances**<br><br>Intercompany balances at the year end stand at net $8m owed from Enteq Upstream USA Inc (Inc) to Enteq Upstream plc, which represents inter-company loan notes. At year end there a provision of $29,928m against the loan notes and a provision of $20.679m against trading balances owed which took the net of the trading balances to nil. The directors make an annual assessment to determine whether there are indicators that these balances are impaired<br><br>Where indicators of impairment are identified and in order to determine if these balances are impaired management have compared the net assets of Inc to that of the intercompany balances to calculate whether an impairment is required.<br><br>Considering the wider economic environment including the fall in the oil price and the COVID 19 pandemic and thus the future forecasted negative cashflows the valuation of the intercompany balances as a significant risk, due to it being an area of significant management judgement and as one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br>• Obtaining management's assessment, which include details of the provisions posted and the cash generating units (CGUs) identified;<br>• Assessing the assumptions and judgements in management's assessment of how they believe the remaining intercompany loan balances are recoverable, and whether the treatment of the intercompany receivables is in line with IFRS 9;<br>• Reflecting on the group's net asset position, compared to the level of the intercompany balances remaining in Enteq Upstream plc,<br><br>The group's accounting policies on intercompany balances are shown in note 1, on page 66, and related disclosures are included in notes 5 and 7 on pages 69 and 69 respectively.<br><br>**Key observations**<br>Based on the audit work described we have identified no issues over the valuation of intercompany balance. |

**Our application of materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

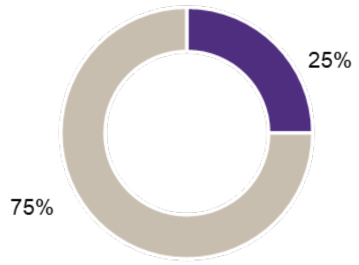
Materiality was determined as follows:

| Materiality measure | Group | Parent |
| --- | --- | --- |
| Financial statements as a whole | $231,000 which is approximately 2.1% of the group's total revenue at the planning stage. The group key audit matter identified above relates to unpaid revenue, demonstrating revenue to be the appropriate benchmark. Revenue is also considered to be a KPI for the group which adds to why it is an appropriate benchmark.<br><br>Materiality for the current year is lower than the level that we determined for the year ended 31 March 2019 because the benchmark was changed from total assets to revenue.<br><br>Historically the focus of the group has been on maintaining the assets of the group and more specifically the cash balances as markets recovered, which prompted total assets being the most appropriate benchmark to use.<br><br>Recently the focus of management has been seen to be increasingly focused on new key metrics as sales start to increase.<br><br>The loss before tax is also not considered a key metric used by management in their reporting. Therefore, revenue was considered to be the most appropriate key metric used by management on which we could base our materiality.<br><br>Two percent of revenue has been selected as the entity is listed, and this gives a value of $231k.<br><br>This is 2.9% of the loss before tax. | $174,000, which is approximately 1.0% of the company's total assets.<br><br>Total assets is considered the most appropriate benchmark as cash makes up a significant portion of the parent company, and consequently the group's total assets, which is a key metric for investors. The parent company is a holding company with significant intercompany balances with other group components, and therefore group total assets is considered the most appropriate benchmark .<br><br>Materiality for the current year is lower than the level that we determined for the year ended 31 March 2019 due total assets, being lower in 2020 than the total assets figure in 2019.<br><br>. |
| Performance materiality used to drive the extent of our testing | $173,000, which is 75% of financial statement materiality | $131,000, which is 75% of financial statement materiality. |
| Specific materiality | We determined a lower level of specific materiality, for certain areas such as related party transactions and directors' emoluments. | We determined a lower level of specific materiality, for certain areas such as related party transactions and directors' emoluments. |
| Communication of misstatements to the audit committee | Amounts above $12,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. | Amounts above $9,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

**Overall materiality – Group**


**Overall materiality – Parent**




▪ Tolerance for potential uncorrected mis-statements ▪ Performance materiality

**An overview of the scope of our audit**

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, it's environment and risk profile and in particular included:

Evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Our assessment was based on the relative materiality of each component entity to the group and an assessment of their audit risk;

Performing full scope audit procedures at Enteq Upstream plc and Enteq Upstream USA Inc;

Attendance at the stock count in Houston in respect of inventory held at the US component;

Evaluating the group's internal control environment, including an assessment of the design effectiveness of controls over key financial statement risk areas identified as part of our audit risk assessment;

On-site audit fieldwork visits to the sites Amersham (UK) and Houston (US);

Reperforming the group consolidation, to confirm the accuracy of management's computations and to demonstrate the group financial information was consistent with the financial information per the audited financial statements of the significant group components; and

Substantive testing of 100% of group revenues

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

**Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the report of the directors have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report under the Companies Act 2006**

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

**Responsibilities of directors for the financial statements**

As explained more fully in the statement of directors' responsibilities set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

**Auditor's 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 auditor's 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Mark Bishop FCA**
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
**Reading**

30 June 2020

# Enteq Upstream Plc
## Consolidated Statement of Profit and Loss

| | Notes | ***Year to 31 March 2020*** | *Year to 31 March 2019* |
|---|---|---|---|
| | | ***$ 000's*** | *$ 000's* |
| | | ***Total*** | *Total* |
| Revenue | *5* | **10,903** | 10,204 |
| Cost of Sales | | **(4,256)** | (3,546) |
| **Gross Profit** | | **6,647** | 6,658 |
| Administrative expenses before amortisation | *9* | **(7,269)** | (6,952) |
| Amortisation of acquired intangibles | *9* | **(217)** | (116) |
| Other exceptional items | *6* | **(7,286)** | (7) |
| Foreign exchange profit on operating activities | | **37** | 6 |
| Total Administrative expenses | | **(14,735)** | (7,069) |
| **Operating loss** | | **(8,088)** | (411) |
| Finance income | *8* | **250** | 246 |
| **Loss before tax** | | **(7,838)** | (165) |
| Tax | *10* | **-** | 67 |
| **Loss for the period** | | **(7,838)** | (98) |
| *Loss attributable to:* | | | |
| Owners of the parent | | **(7,838)** | (98) |
| ***Loss per share (in US cents):*** | *11* | | |
| Basic | | **(12.1)** | (0.2) |
| Diluted | | **(12.1)** | (0.2) |

The accounting policies and notes on pages 38 to 63 form part of these financial statements.

# Enteq Upstream Plc

## Consolidated Statement of Comprehensive Income

| | ***Year to 31 March 2020*** | *Year to 31 March 2019* |
|---|---|---|
| | *$ 000's* | *$ 000's* |
| Loss for the year | **(7,838)** | (98) |
| Other comprehensive income for the year: | | |
| Items that will not be reclassified subsequently to profit and loss | **-** | - |
| Items that will be reclassified subsequently to profit and loss | **-** | - |
| **Total comprehensive income for the period** | **(7,838)** | (98) |
| *Total comprehensive income attributable to:* | | |
| Owners of the parent | **(7,838)** | (98) |

The accounting policies and notes on pages 38 to 63 form part of these financial statements.

# Enteq Upstream Plc

## Consolidated Statement of Financial Position

| | Notes | ***As at 31 March 2020*** | *As at 31 March 2019* |
|---|---|---|---|
| | | *$ 000's* | *$ 000's* |
| **Assets** | | | |
| **Non-current** | | | |
| Goodwill | *12a* | - | - |
| Intangible assets | *12b* | 134 | 2,394 |
| Property, plant and equipment | *13* | 3,433 | 5,895 |
| Trade and other receivables | *15* | - | 334 |
| **Non-current assets** | | 3,567 | 8,623 |
| **Current** | | | |
| Trade and other receivables | *15* | 2,025 | 2,020 |
| Inventories | *16* | 3,110 | 4,512 |
| Cash and cash equivalents | *17* | 10,183 | 11,930 |
| **Current assets** | | 15,318 | 18,462 |
| **Total assets** | | **18,885** | 27,085 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | *18* | 1,027 | 1,005 |
| Share premium | *18* | 91,579 | 91,398 |
| Share based payment reserve | | 1,048 | 750 |
| Retained earnings | | (76,943) | (69,105) |
| **Total equity** | | 16,711 | 24,048 |
| **Liabilities** | | | |
| **Current** | | | |
| Trade and other payables | *19* | 2,174 | 3,037 |
| **Total liabilities** | | 2,174 | 3,037 |
| **Total equity and liabilities** | | **18,885** | 27,085 |

The financial statements were authorised for issue and approved by the Board of Directors on 30 June 2020 and were signed on its behalf by:

**David Steel**

Director

The accounting policies and notes on pages 38 to 63 form part of these financial statements.

## Enteq Upstream Plc

### Consolidated Statement of Changes in Equity

| | Called up share capital *$ 000's* | Retained earnings *$ 000's* | Share premium *$ 000's* | Share based payment reserve *$ 000's* | Total equity *$ 000's* |
|---|---|---|---|---|---|
| **As at 1 April 2019** | **1,005** | **(69,105)** | **91,398** | **750** | **24,048** |
| Issue of share capital | 22 | - | 181 | - | 203 |
| Share based payment charge | - | - | - | 298 | 298 |
| Transactions with owners | 22 | - | 181 | 298 | 501 |
| Loss for the year | - | (7,838) | - | - | (7,838) |
| Other comprehensive income for the year | - | - | - | - | - |
| Total comprehensive income | - | (7,838) | - | - | (7,838) |
| Total movement | 22 | (7,838) | 181 | 298 | (7,337) |
| **As at 31 March 2020** | **1,027** | **(76,943)** | **91,579** | **1,048** | **16,711** |

| | Called up share capital *$ 000's* | Retained earnings *$ 000's* | Share premium *$ 000's* | Share based payment reserve *$ 000's* | Total equity *$ 000's* |
|---|---|---|---|---|---|
| **As at 1 April 2018** | **982** | **(69,351)** | **91,031** | **910** | **23,572** |
| Issue of share capital | 23 | - | 367 | - | 390 |
| Share based payment charge | - | - | - | 184 | 184 |
| Transfer of reserves | - | 344 | | (344) | - |
| Transactions with owners | 23 | 344 | 367 | (160) | 574 |
| Loss for the year | - | (98) | - | - | (98) |
| Other comprehensive income for the year | - | - | - | - | - |
| Total comprehensive income | - | (98) | - | - | (98) |
| Total movement | 23 | 246 | 367 | (160) | 476 |
| **As at 31 March 2019** | **1,005** | **(69,105)** | **91,398** | **750** | **24,048** |

The accounting policies and notes on pages 38 to 63 form part of these financial statements.

# Enteq Upstream Plc

## Consolidated Statement of Cash Flows

| | Year to 31 March 2020 | Year to 31 March 2019 |
|---|---|---|
| | *$ 000's* | *$ 000's* |
| **Cash flows from operating activities** | | |
| Loss for the year | (7,838) | (98) |
| Tax (credit)/charge | - | (67) |
| Net finance income | (250) | (246) |
| Gain on disposal of fixed assets | - | (9) |
| Share-based payment non-cash charges | 298 | 186 |
| Foreign exchange charge | (37) | (6) |
| Depreciation and Amortisation charges | 7,822 | 2,691 |
| | (5) | 2,451 |
| Tax paid | - | - |
| Decrease/(increase) in inventory | 1,402 | (1,210) |
| Decrease/(increase) in trade and other receivables | 329 | (14) |
| Decrease in trade and other payables | (863) | (197) |
| **Net cash from operating activities** | **863** | **1,030** |
| **Investing activities** | | |
| Purchase of Property Plant and Equipment | (208) | (213) |
| Increase in rental fleet assets | (742) | (3,754) |
| Disposal proceeds of tangible fixed assets | - | 9 |
| Purchase of intangible fixed assets | (2,150) | (1,286) |
| Interest received | 250 | 246 |
| Net cash from investing activities | (2,850) | (4,998) |
| **Financing activities** | | |
| Share issue | 203 | 391 |
| Net cash from financing activities | 203 | 391 |
| **Decrease/(increase) in cash and cash equivalents** | **(1,784)** | **(3,577)** |
| Non-cash movements - foreign exchange | 37 | 6 |
| Cash and cash equivalents at beginning of period | 11,930 | 15,501 |
| **Cash and cash equivalents at end of period** | **10,183** | **11,930** |

The accounting policies and notes on pages 38 to 63 form part of these financial statements.

# Notes to the Consolidated Financial Statements

For the year to 31 March 2020

1. **NATURE OF OPERATIONS**
The principal activity of Enteq Upstream Plc and its subsidiaries is that of acquiring, consolidating and operating companies providing specialist reach and recovery products and technologies to the upstream oil and gas services market.

2. **GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS**
Enteq Upstream Plc, the Group's ultimate parent Company, is a limited liability Company incorporated and domiciled in England and Wales. Its registered office is The Courtyard, High Street, Ascot, Berkshire, SL5 7HP. Enteq's shares are listed on the Alternative Investment Market of the London Stock Exchange. The consolidated financial statements of the Group have been prepared in accordance with International Financial reporting Standards (IFRSs) as adopted by the European Union. They have been prepared under the assumption that the Group operates on a going concern basis.
In 2019 the Group has adopted new guidance for the recognition of leases (see Note 3 below). The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adoption as at 1 April 2019 showing no material impact to the financial statements, and no adjustment being required. Accordingly, the Group is not required to present a third statement of financial position as at that date.

3. **STANDARDS, AMENDMENTS AND INTERPRETATIONS OF ACCOUNTING POLICIES**

The Group has adopted the new accounting pronouncements which have become effective this year, which is solely IFRS 16 'Leases'. This replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). Following a full review of all such leases no material items were identified and hence the adoption of this new Standard has resulted no adjustments.

*Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group*

At the date of authorisation of these financial statements, no new standards, amendments and interpretations to existing standards have been identified.

4. **ACCOUNTING POLICIES**

**Overall considerations**
The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

**Basis of preparation**
The Group's financial statements have been prepared on an accrual basis and under the historical cost convention. Monetary amounts are expressed in US dollars and are rounded to the nearest thousands, except for earnings per share.

The financial statements are presented in US dollars as the Company's primary economic environment, in which it operates and generates cash flows is one of US dollars. Apart from its share placings, substantially all other transactions are likely to be transacted in US dollars. The majority of the Company's subsidiaries' activities and transactions therewith are expected to be in US dollars. The Parent Company's functional currency is US dollars.

**Basis of consolidation**
The Group financial statements consolidate those of the parent Company and all of its subsidiaries as of 31 March 2020. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through more than half of the voting rights. All subsidiaries have a reporting date of 31 March 2020.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Companies included in the consolidation:

| Name | Country of incorporation | Nature of business | Holding |
|---|---|---|---|
| Enteq Upstream USA Inc. | United States of America | Manufacturer of down hole drilling equipment | 100% |
| Jeteq Drilling Limited | England & Wales | Dormant | 100% |

The financial statements of subsidiaries are included in the consolidated financial statements from the date at which control commences to the date that control ceases. There are no non-conforming accounting policies in any of the subsidiaries.

**Going concern**

At 31 March 2020 the Group has cash balances of $10.2m and no debt.

The impact of both COVID-19 and the significant deterioration in the oil and gas drilling market, particular in North America have been fully factored into various financial scenarios relating to future trading. The output of this modelling demonstrates that even in the case of a significant reduction in revenue the corresponding cost reduction measures and reduction in CAPEX and development spend will enable the Group to retain significant cash balances in both the near and medium term. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

The uncertainty as to the future impact on the Group of the recent Covid-19 outbreak in particular has been considered as part of the Group's adoption of the going concern basis. To date, we have not observed any material impact on our activities due to Covid-19 over and above that of the significant reduction in the North America rig count since the start of March 2020 and, indeed, the recently announced $1.0m contract ward in China demonstrates the robustness of the post Covid-19 oil and gas drilling market in that country.

All the staff at the Group's Houston based facility has recently returned to work after an implementation of revised safe working practices in view of Covid-19 concerns. As at the date of this report the UK based staff continue to work remotely.

**Business combinations**

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values. Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

Where the consideration for the business combination includes contingent consideration, management assess the expected future liability based on the available information at the time of the acquisition, taking into account the expected probability of achieving the relevant conditions and milestones. The expected liability is discounted to its present value and unwound over the life of the liability, with the impact of the unwinding included in finance costs over the life of the contingency. At each reporting date management updates their estimates of the total consideration expected to be paid. Where, during the first 12 months following the acquisition, a change in the estimated contingent consideration arises as a result of changes in underlying assumptions which should have been identified at the time of the acquisition, the acquisition accounting is adjusted to reflect this. All other changes are reflected in profit or loss for the period.

**Foreign currencies**
All companies in the Group have a functional currency of US dollars.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. The exchange rate used at the year-end is £1: $1.25 (31 March 2019 £1: $1.30). Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

**Segmental reporting**
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the executive members of the Board, at which level strategic decisions are made.

**Revenue**
Revenue arises mainly from the sale and rental of Measurement While Drilling ("MWD") equipment. To determine whether to recognise revenue, the Group follows a 5-step process:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognising revenue when/as performance obligation(s) are satisfied.

**Revenue from contracts with customers**
Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position (see Note 25). Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due. Revenue is recognised when the transfer of control takes place; this is taken to be at the point of despatch from the Group's facilities when the full legal title. In the years to both 31 March 2020 and 31 March 2019 there were no performance obligations associated with this category of revenue. All revenues under this category are fully allocated to the equipment despatched.

**Revenue from operating lease income**
Revenue from rentals paid under operating leases is recognised in the profit and loss account on a straight-line basis over the period of the lease.

**Interest**
Interest income and expenses are reported on an accrual basis using the effective interest method.

**Operating expenses**
Operating expenses are recognised in profit or loss upon utilisation of the service. Expenditure for warranties is recognised and charged in the period the warranty costs are incurred.

**Exceptional items**
Exceptional items are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and distort the comparability of our financial performance between periods.

Exceptional items relate to such categories as impairment charges, change to contingent consideration, and severance costs.

## Intangible Assets and Goodwill

### a) Goodwill

Goodwill represents amounts arising on the acquisition of trade and related assets and liabilities.

Goodwill on acquisitions comprises the excess of the fair value of the consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

### b) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment.

### c) Research and Development Expenditure

Research expenditure is recognised as an expense when it is incurred. Development expenditure is recognised as an expense except that expenditure incurred on development projects is capitalised as long-term assets to the extent that such expenditure is expected to generate future economic benefits. Development expenditure is capitalised if, and only if the Group can demonstrate all of the following: -

- its ability to measure reliably the expenditure attributable to the asset under development;
- the product or process is technically and commercially feasible;
- its future economic benefits are probable;
- its ability to use or sell the developed asset;
- the availability of adequate technical, financial and other resources to complete the asset under development; and
- its intention to complete the intangible asset and use or sell.

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses, if any. Development expenditure initially recognised as an expense is not recognised as assets in the subsequent period. Development expenditure is amortised on a straight-line method over the useful lives of each product from when the products are ready for sale or use. In the event that the expected future economic benefits are no longer probable of being recovered, the development expenditure is written down to its recoverable amount.

**Subsequent measurement**

All intangible assets (other than Goodwill), including capitalised internally developed software, are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described below.

**Amortisation**
Amortisation is charged to overheads, within total administrative expenses, in the income statement on a straight-line basis over the estimated useful lives of the intangible assets unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are determined separately for each acquisition and fall within the following ranges:

| | |
|---|---|
| Brand names | 5 – 20 years |
| Customer relationships | 11 – 13 years |
| Developed Technology | 4 – 7 years |
| Non-compete agreement | 5 years |

**Impairment testing of goodwill, other intangible assets and property, plant and equipment**
For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

There is deemed to be just one cash generating unit ("CGU") within the Group.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors. Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount, but only to the extent that this does not exceed the original carrying value, had no impairment been recorded.

**Property, plant and equipment**
Tangible Property, Plant & Equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is included within administrative expenses for all tangible assets at rates calculated to write off the cost, less estimated residual value of each asset on a straight-line basis over useful economic life, as follows:

| | |
|---|---|
| Land | Not depreciated |
| Leasehold improvements | Over life of lease, or useful economic life, if shorter |
| Buildings | 10 to 35 years |
| Production equipment | 4 to 7 years |
| Other equipment | 3 to 7 years |
| Rental assets | Over the life of the asset, up to a maximum of 2 years |

Management review the useful economic life and residual values of all assets on an annual basis.

**Leased assets**
The Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.
Accounting policy applicable from 1 April 2019.

**The Group as a lessee**

For any new contracts entered into on or after 1 April 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use.

The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

**Measurement and recognition of leases as a lessee**

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

**The Group as a lessor**

The Group's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

**Accounting policy applicable before 1 April 2019**
**The Group as a lessee**
**Finance leases**

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership of the asset at the end of the lease term. For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life. The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

**Operating leases**

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

**The Group as a lessor**

Rental income is recognised on a straight-line basis over the term of the lease.

**Financial instruments**

*Recognition and derecognition*

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

*Classification and initial measurement of financial assets*

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, , are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the corporation does not have any financial assets categorised as either FVTPL or FVOCI.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

*Subsequent measurement of financial assets*

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

*Impairment of financial assets*

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaced IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

*Trade and other receivables and contract assets*
The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses. As the Group has so few customers with significant outstanding receivable balances the expected credit losses can be assessed on an individual customer by customer basis.

*Classification and measurement of financial liabilities*
The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

**Inventories**
Inventories are stated at the lower of cost and net realisable value. Cost, for inventory items that involve significant manufacturing time, includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. The cost of inventory that do not incur significant levels of manufacturing time are held at material cost only. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

**Taxation**
The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred income tax is the income 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 Statement of Financial Position liability method. Deferred income tax is provided in full and is recognised on temporary 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. Deferred income tax liabilities are generally recognised on 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 any discount on acquisition) 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 income tax is measured on an undiscounted basis at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred income tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income. Deferred income tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries, 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 income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

**Financial liabilities and equity**
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

**Trade and other payables**
Trade and other payables are not interest-bearing and are recognised initially at fair value. Subsequently they are carried at amortised cost.

**Equity instruments**
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

**Equity, reserves and dividend payments**
Share capital represents the nominal value of shares that have been issued. Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Retained earnings include all current and prior period retained profits. All transactions with owners of the parent are recorded separately within equity. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

**Share based payment reserve**
Represents the total accumulated share-based payment charge less any amounts transferred following the issue of the relevant shares.

**Pensions and short-term employee benefits**
*Pensions*
The Group does not operate its own pension scheme but makes contributions to an individual's personal pension scheme, where appropriate.

*Share based payments*
All employees receive remuneration in the form of share-based payment transactions, whereby they render services in exchange for rights over shares under the Enterprise Management Incentive Plan option scheme. The executive directors and other senior managers receive remuneration in the form of share-based payment transactions, whereby they render services in exchange for rights over shares under the Performance Share Plan. Both these schemes have options that vest three years after the date of grant. The total amount to be expensed over the vesting period of the options is determined by reference to the fair value at the date of granting and the number of awards that are expected to vest. The fair value is based upon a Black-Scholes model taking into account different scenarios for the possible outcomes of the Company's investment activities, using management's best estimates of these likely outcomes. The total expense is based upon initial conditions and will crystallise smoothly over the vesting period without reassessment of the initial fair value. The charge is annually reassessed, based on the total number of options expected to vest. In addition, where there are changes to the terms of any agreements, the fair value is reassessed at that time. The movement in cumulative expense is recognised in the profit and loss, with a corresponding entry to the share-based payment reserve.

On 17 September 2014, the Company introduced a Performance Share Plan ("PSP") for the Executive Directors and other key senior managers. Any awards are made at the nominal value of the shares, but the exercise of these awards is subject to certain performance conditions. During the life of each award a charge is made to the profit and loss account representing the fair value of the benefit represented by each award the other side of the accounting entry is to a corresponding reserve.

**Critical accounting estimates and judgements**
The preparation of the financial statements in conforming with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and contingent liabilities. These will seldom equal the related actual results and adjustments will consequently be necessary. Estimates are continually evaluated based on experience, consultation with experts and reasonable expectations of future events. The carrying value of both the inventory and intangible assets are the key areas where significant judgement are required.

There are no critical estimates included in either the current or prior years. Accounting judgements are applied in determining the carrying amounts of the following significant assets and liabilities:

| | |
|---|---|
| Impairment of intangible assets | An impairment test is carried out annually and involves a significant level of judgement regarding factors such as future growth rates. Senior management base this judgement on the best available industry and market data at that point in time. The critical judgements and estimates are set out in note 12. As the Group strategy unfolds, these assumptions may change. Any significant downward variance in the assumptions may result in an impairment. |

| | |
|---|---|
| Impairment of inventory | The net inventory carrying value as at 31 March 2020 is $3,110k with an exceptional impairment charge of $2,700k being recognised within the consolidated statement of Profit and Loss for the year to 31 March 2020. In determining the impairment charge to be recognised, the directors applied a number of assumptions to estimate the net realisable value of inventory on a line by line basis. Historically the directors have determined net realisable value by reference to post year end demand and historic sales. However, as explained in the Combined Chief Executive and Chairman's report (see the second paragraph of the section headed "Review of the Year") various factors have significantly impacted on the markets in which Enteq operates, resulting in a higher degree of estimation uncertainty about future demand and reliance on historic sales. Consequently, less certainty and a higher degree of caution should be attached to the estimation of inventory net realisable value than would normally be the case. The directors have considered the estimation uncertainty, and while less certainty and a higher degree of caution needs to be attached to the estimation of inventory net realisable value, the estimate can still be relied upon. The directors therefore consider the inventory being carried at a value of $3,110k to be an accurate reflection of its net realisable value. |
| Recoverability of trade debtors | In assessing the recoverability of these assets, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. |

## 5. SEGMENTAL REPORTING

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

The principal activities of the Drilling Tools division are the design, manufacture and selling of specialised parts and products for Directional Drilling and Measurement While Drilling operations for use 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 profit and loss statement and the consolidated statement of financial position. A key measurement used by the board is Adjusted EBITDA. This reconciliation is included in note 6, below.

The revenues, net assets and non-current assets of the Group can be analysed by geographic location (post-consolidation adjustments) as follows:

Revenues

| | 31 March 2020 $ 000's | 31 March 2019 $ 000's |
|---|---|---|
| United States of America | 7,659 | 9,251 |
| China | 2,997 | 906 |
| Rest of the world | 247 | 47 |
| Total Group revenue | 10,903 | 10,204 |

| | 31 March 2020 *$ 000's* | 31 March 2019 *$ 000's* |
|---|---|---|
| Contracts with customers | 6,112 | 6,501 |
| Operating lease income | 4,791 | 3,703 |
| Total Group revenue | 10,903 | 10,204 |

All the above revenues are recognised at a point in time.

Net Assets

| | 31 March 2020 *$ 000's* | 31 March 2019 *$ 000's* |
|---|---|---|
| Europe (UK) | 8,713 | 10,315 |
| United States | 7,999 | 13,733 |
| Total Group net assets | 16,712 | 24,048 |

Non-current Assets

| | 31 March 2020 *$ 000's* | 31 March 2019 *$ 000's* |
|---|---|---|
| Europe (UK) | - | - |
| United States | 3,567 | 8,623 |
| Total Group non-current assets | 3,567 | 8,623 |

All of the Group's revenue arises from the sale and rental of specialised parts and products for Directional Drilling and Measurement While Drilling operations. The Group had 2 customers that contributed in excess of 10% of the Group's total sales for the year (2019: 3). These customers contributed $3,948k and $1,279k respectively. (2019: $2,617k, $1,286k and $1,122k). No revenue relates to customers based in the UK (2019: none).

## 6. PROFIT AND LOSS ANALYSIS

The following analysis illustrates the performance of the Group's activities, and reconciles the Group's loss for the period, as shown in the consolidated profit and loss statement, to adjusted earnings and adjusted EBITDA.

Adjusted earnings and adjusted EBITDA are presented to provide a better indication of overall financial performance and to reflect how the business is managed and measured on a day-to-day basis.

| | 31 March 2020 *$ 000's* | 31 March 2019 *$ 000's* |
|---|---|---|
| Loss attributable to ordinary shareholders | (7,838) | (98) |
| Exceptional items | 7,286 | 7 |
| Amortisation of acquired intangible assets *(note 12b)* | 217 | 116 |
| Foreign exchange movements | (37) | (6) |
| **Adjusted earnings** | **(372)** | **19** |
| Depreciation charge *(note 13)* | 3,412 | 2,575 |
| Finance income *(note 8)* | (250) | (246) |
| Performance Share Plan charge *(note 20)* | 298 | 173 |
| Tax (credit)/charge *(note 10)* | - | (67) |
| **Adjusted EBITDA** | **3,088** | **2,454** |

The exceptional items can be analysed as follows:

| | 31 March 2020 *$ 000's* | 31 March 2019 *$ 000's* |
|---|---|---|
| Write down of intangible assets *(note 12b)* | 4,192 | - |
| Write down of inventory *(note 16)* | 2,700 | - |
| Aborted project costs incurred | 296 | - |
| Severance payments and other plant closure costs | 98 | 16 |
| Gain on sale of fixed assets | - | (9) |
| Total exceptional items | 7,286 | 7 |

The write down of inventory has been classified as an exceptional item due to the nature of change in the oil and gas market resulting from both the impact of the COVID-19 and the reductions in the price of oil during March 2020.

## 7. EMPLOYEES AND DIRECTORS

| | 31 March 2020<br>$ 000's | 31 March 2019<br>$ 000's |
|---|---|---|
| Wages and salaries | 3,849 | 3,951 |
| Social security costs | 222 | 314 |
| Equity settled transactions – in lieu of salaries | 9 | 87 |
| Equity settled transactions – share option and PSP charge | 299 | 186 |
| Pension and health costs | 416 | 494 |
| | 4,796 | 5,032 |

The average monthly number of employees during the year was as follows:

| | No. | No. |
|---|---|---|
| Directors | 4 | 4 |
| Senior management | 2 | 2 |
| Sales & marketing | 2 | 2 |
| Manufacturing & Technical | 21 | 21 |
| Finance & administration | 2 | 2 |
| | 31 | 31 |

| | $ 000's | $ 000's |
|---|---|---|
| Directors' remuneration | 890 | 1,053 |
| Information regarding the highest paid director is as follows: | | |
| Emoluments | 501 | 613 |

The directors are deemed to be 'Key Management'. This is detailed further in Note 23. Further details of emoluments paid to directors, including details of the highest paid director are contained in the Remuneration Committee report on pages 18 to 20.

<u>Share plans</u>
The Group has an equity-settled share option scheme. The total amount to be expensed over the vesting period is determined by reference to the fair value at the date at which the options are granted. It is assumed that all options will vest. The fair value is determined using a Black Scholes model which assesses the likelihood of the Company achieving certain goals in line with its strategy, ranging from failure to make any investments and return of funds to investors, to achieving various rates of acquisitive growth. The cashflows attached to these different scenarios are discounted over the vesting period at an annual rate of 14% and contribute to the estimated value of the Company in line with each scenario's assessed weighting of likelihood of occurrence. The value of each share in issue is therefore estimable and the consequent value to option holders calculable following their payment of the exercise price.

Details of the share options outstanding at the end of the year are shown in note 20.

*Enterprise Management Incentive Plan*
The Group has established a share option plan that entitles all employees to purchase shares in the Company. See note 20 for further details.

*Performance Share Plan*
The Group has established a share plan that entitles certain senior employees to acquire shares in the Company if certain performance conditions are met. See note 20 for further details.

## 8. NET FINANCE INCOME

| | 31 March 2020<br>$ 000's | 31 March 2019<br>$ 000's |
|---|---|---|
| Interest earned on bank deposits | 250 | 246 |

## 9. LOSS BEFORE INCOME TAX

The loss before income tax is stated after charging/(crediting):

| | 31 March 2020<br>$ 000's | 31 March 2019<br>$ 000's |
|---|---|---|
| Depreciation of tangible assets | 3,412 | 2,575 |
| Amortisation of intangible assets | 217 | 116 |
| Auditors' remuneration: | | |
| - Fees payable to the Company's auditor for the audit of the Company's and Group's annual accounts | 88 | 70 |
| - Tax compliance services | 39 | 41 |
| - Transaction advisory services | 130 | - |
| - Transaction related tax services | 14 | - |
| Share based payments | 298 | 186 |
| Foreign exchange gains | (37) | (6) |
| Gain on disposal of Property, Plant & Equipment | - | (9) |

## 10. INCOME TAX

**Analysis of tax expense**
No liability to UK corporation tax arose on ordinary activities for the period.

**Factors affecting the tax charge**
The tax assessed for the period is different from the standard rate of corporation tax in the UK. The difference is explained below:

| | 31 March 2020<br>$ 000's | 31 March 2019<br>$ 000's |
|---|---|---|
| Loss on ordinary activities before tax | (7,838) | (165) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%): | (1,489) | (31) |
| Effects of: | | |
| Items not subject to corporation tax | 1,999 | 511 |
| Tax losses to carry forward | (510) | (480) |
| Texas State Franchise Tax | - | 5 |
| Release of previous year over accrual for Texas State Franchise Tax | - | (72) |
| Total income tax | - | (67) |

There has been no deferred taxation recognised in these financial statements due to the uncertainty surrounding the timing of the recovery of these amounts. The total losses available to the Group in the relevant tax jurisdictions are as follows: UK $1.1m; United States $13.3m (2019: UK $0.7m; United States $15.7m). There were no significant deferred tax liabilities.

## 11. EARNINGS PER SHARE AND DIVIDENDS

***Basic earnings per share***

Basic earnings per share is calculated by dividing the loss attributable to ordinary shareholders for the year of \$7,838k (31 March 2019: loss of \$98k) by the weighted average number of ordinary shares in issue during the year of 64,900k (31 March 2019: 63,297k).

***Adjusted earnings per share***

Adjusted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders, excluding exceptional items, amortisation of intangible assets and foreign exchange profits or losses for the year of a loss of \$372k (31 March 2019: profit of \$19k), by the weighted average number of ordinary shares in issue during the year of 64,900k (31 March 2019: 63,297k).

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 year end share price is below the weighted average option price of all the options issued, the adjusted diluted EPS is the same as adjusted EPS.

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 below.

| **March 2020: EPS** | Earnings | Weighted average number of shares | Per-share amount |
|---|---|---|---|
| | *\$ 000's* | *000's* | *US cents* |
| Loss attributable to ordinary shareholders | (7,838) | 64,900 | (12.1) |
| Exceptional items | 7,286 | | |
| Amortisation of acquired intangible assets | 217 | | |
| Foreign exchange movements | (37) | | |
| Adjusted loss attributable to ordinary shareholders | (372) | 64,900 | (0.6) |

| **March 2019: EPS** | Earnings | Weighted average number of shares | Per-share amount |
|---|---|---|---|
| | *\$ 000's* | *000's* | *US cents* |
| Loss attributable to ordinary shareholders | (98) | 63,297 | (0.2) |
| Exceptional items | 7 | | |
| Amortisation of acquired intangible assets | 116 | | |
| Foreign exchange movements | (6) | | |
| Adjusted profit attributable to ordinary shareholders | 19 | 63,297 | - |

During the year Enteq Upstream Plc did not pay any dividends (2019: nil).

## 12. INTANGIBLE ASSETS

### a) Goodwill

| | $ 000's |
|---|---|
| Cost: | |
| As at 1 April 2019 and as at 31 March 2020 | 19,619 |
| Impairment: | |
| As at 1 April 2019 and as at 31 March 2020 | 19,619 |
| Net Book Value: | |
| As at 1 April 2019 and as at 31 March 2020 | - |

### b) Other Intangible Assets

| | Developed technology | IPR&D technology | Brand names | Customer relationships | Non-compete agreements | Total |
|---|---|---|---|---|---|---|
| | *$ 000's* | *$ 000's* | *$ 000's* | *$ 000's* | *$ 000's* | *$ 000's* |
| **Cost:** | | | | | | |
| As at 1 April 2019 | 12,823 | 9,305 | 1,240 | 20,586 | 5,931 | 49,885 |
| Capitalised in period | - | 2,149 | - | - | - | 2,149 |
| As at 31 March 2020 | 12,823 | 11,454 | 1,240 | 20,586 | 5,931 | 52,034 |
| **Amortisation/Impairment:** | | | | | | |
| As at 1 April 2019 | 12,626 | 7,108 | 1,240 | 20,586 | 5,931 | 47,491 |
| Charge for the year | 197 | 20 | - | - | - | 217 |
| Impairment | - | 4,192 | - | - | - | 4,192 |
| As at 31 March 2020 | 12,823 | 11,320 | 1,240 | 20,586 | 5,931 | 51,900 |
| **Net Book Value:** | | | | | | |
| As at 1 April 2019 | 197 | 2,197 | - | - | - | 2,394 |
| As at 31 March 2020 | - | 134 | - | - | - | 134 |

| | Developed technology | IPR&D technology | Brand names | Customer relationships | Non-compete agreements | Total |
|---|---|---|---|---|---|---|
| | *$ 000's* | *$ 000's* | *$ 000's* | *$ 000's* | *$ 000's* | *$ 000's* |
| **Cost:** | | | | | | |
| As at 1 April 2018 | 12,676 | 8,164 | 1,240 | 20,586 | 5,931 | 48,597 |
| Capitalised in period | 147 | 1,141 | - | - | - | 1,288 |
| As at 31 March 2019 | 12,823 | 9,305 | 1,240 | 20,586 | 5,931 | 49,885 |
| **Amortisation/Impairment:** | | | | | | |
| As at 1 April 2018 | 12,510 | 7,108 | 1,240 | 20,586 | 5,931 | 47,375 |
| Charge for the year | 116 | - | - | - | - | 116 |
| As at 31 March 2019 | 12,626 | 7,108 | 1,240 | 20,586 | 5,931 | 47,491 |
| **Net Book Value:** | | | | | | |
| As at 1 April 2018 | 165 | 1,057 | - | - | - | 1,222 |
| As at 31 March 2019 | 197 | 2,197 | - | - | - | 2,394 |

The main categories of Intangible 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 foreseeable future.

*Brand names:*
The value associated with the various trading names 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.

**Goodwill and Impairment**

Due to the severe downturn in the price of oil seen since the start of March 2020, all intangible assets were assessed as to their future commercial viability. The conclusion was that only the development of the rotary steerable project, whose licence was obtained from Shell Global Solutions in September 2019, could be justified as having future economic value. As a consequence of this evaluation an impairment charge of $4,192k was recognised in the consolidated profit and loss statement for the year ended 31 March 2020.

As the goodwill had previously been written down to zero there is no requirement for an impairment review to be performed. The remaining intangible assets were subjected to the standard annual test for impairment. The impairment test carried out on these balances as at 31 March 2020 indicated that there was no impairment of the full carrying value of the intangible assets.

There is deemed to be just one cash generating unit ("CGU") within the Company. In previous years there were deemed to be two, but from a financial & operational perspective both US locations are now being run as one unit.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the future revenues, discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessment of the time value of money and the risks specific to the CGU. The growth rates are based on management forecasts for the five years to March 2025. Cash flow forecasts are prepared from the most recent financial plans approved by the Board.

The forecasts assume annual growth rates between 15% and 30% until 2025 and 3% thereafter in the long term. These long-term growth rates do not exceed the long-term average growth rates for the industry as a whole.

The pre-tax rate used to discount cash flow forecasts is 12.1% (2019: 13.5%). Management have based this rate on the following factors: a Risk Free Rate of 1.4%; a levered equity beta of 1.5; a market risk premium of 5.5%; a small cap premium of 3.8% and an implied cost of debt of 4.5%.

**Intangible assets**

Any intangible assets acquired during the year represents their fair value at the date of acquisition.

**Amortisation**

All categories of intangible assets, apart from the Goodwill and the IPR&D technology, are being amortised over their respective useful lives, on a straight-line basis. The remaining amortisation period of the intangible assets is between 26 and 34 months.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Production Equipment | Rental Fleet | Other Equipment | Total |
|---|---|---|---|---|---|---|
| | *$000's* | *$000's* | *$000's* | *$000's* | *$000's* | *$000's* |
| **Cost:** | | | | | | |
| As at 1 April 2019 | 461 | 2,389 | 1,238 | 6,078 | 365 | 10,531 |
| Additions | - | 21 | 21 | 742 | 166 | 950 |
| Disposals | - | - | - | (3,333) | - | (3,333) |
| As at 31 March 2020 | 461 | 2,410 | 1,259 | 3,487 | 531 | 8,148 |
| | | | | | | |
| **Depreciation:** | | | | | | |
| As at 1 April 2019 | - | 565 | 1,126 | 2,630 | 315 | 4,636 |
| Charge for the year | - | 109 | 28 | 3,231 | 44 | 3,412 |
| Disposals | - | - | - | (3,333) | - | (3,333) |
| As at 31 March 2020 | - | 674 | 1,154 | 2,528 | 359 | 4,715 |
| | | | | | | |
| **Net Book Value:** | | | | | | |
| As at 1 April 2019 | 461 | 1,824 | 112 | 3,449 | 50 | 5,895 |
| As at 31 March 2020 | 461 | 1,736 | 105 | 959 | 172 | 3,433 |

| | Land | Buildings | Production Equipment | Rental Fleet | Other Equipment | Total |
|---|---|---|---|---|---|---|
| | *$000's* | *$000's* | *$000's* | *$000's* | *$000's* | *$000's* |
| **Cost:** | | | | | | |
| As at 1 April 2018 | 461 | 2,295 | 1,153 | 2,559 | 336 | 6,804 |
| Additions | - | 94 | 89 | 4,028 | 29 | 4,240 |
| Disposals | - | - | (4) | (509) | - | (513) |
| As at 31 March 2019 | 461 | 2,389 | 1,238 | 6,078 | 365 | 10,531 |
| | | | | | | |
| **Depreciation:** | | | | | | |
| As at 1 April 2018 | - | 461 | 1,111 | 440 | 289 | 2,301 |
| Charge for the year | - | 104 | 19 | 2,426 | 26 | 2,575 |
| Disposals | - | - | (4) | (236) | - | (240) |
| As at 31 March 2019 | - | 565 | 1,126 | 2,630 | 315 | 4,636 |
| | | | | | | |
| **Net Book Value:** | | | | | | |
| As at 1 April 2018 | 461 | 1,834 | 42 | 2,119 | 47 | 4,503 |
| As at 31 March 2019 | 461 | 1,824 | 112 | 3,449 | 50 | 5,895 |

As the MWD equipment held within the rental fleet are classified as within this category of assets the depreciation of such equipment is being charged as an administrative expense as opposed to being shown within cost of sales.

## 14. DEFFERED TAX

No deferred tax balances have been recognised in the statement of financial position on the basis that the only material balances related to taxable losses carried forward, which are uncertain as to their recoverability.

As disclosed in Note 10, there are unused tax losses in the UK of $1.1m (tax value of $0.2m at 19%) and in the US of $13.3m (tax value of $4.0m at 30%) (2019: UK $0.7m; US $15.7m), for which deferred tax assets have not been recognised."

## 15. TRADE AND OTHER RECEIVABLES

| | 31 March 2020 | 31 March 2019 |
|---|---|---|
| | *$000's* | *$000's* |
| Trade receivables | 1,770 | 2,089 |
| Prepayments | 173 | 123 |
| Other receivables | 82 | 142 |
| | 2,025 | 2,354 |

The above can be analysed as follows:

| | | |
|---|---|---|
| Non-current | - | 334 |
| Current | 2,025 | 2,020 |
| | 2,025 | 2,354 |

The balance shown within trade receivables can be analysed as follows:

| | | |
|---|---|---|
| Relating to revenue from contracts with customers | 1,770 | 2,089 |
| Relating to revenue from operating leases | - | - |
| | 1,770 | 2,089 |

The management believe that the carrying value is an approximation of fair value. The below includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. Both the current and comparative impairment provisions apply the IFRS 9 expected loss model.

| **Bad debt provision** | 31 March 2020 | 31 March 2019 |
|---|---|---|
| | *$000's* | *$000's* |
| As at 1 April | 68 | - |
| Charged to income statement arising from an entity's contracts with customers | 366 | 68 |
| Allowances used | (68) | - |
| As at 31 March | 366 | 68 |

There were no impairment losses associated with revenue from operating leases.

## 16. INVENTORIES

| | 31 March 2020 | 31 March 2019 |
|---|---|---|
| | *$000's* | *$000's* |
| Finished goods | 2,356 | 3,625 |
| Work in progress | 536 | 621 |
| Raw Materials | 218 | 266 |
| | 3,110 | 4,512 |

The value of inventory recognised within cost of sales was $4,256k (2019: $3,601k). The 31 March 2020 balance includes a provision for slow moving stock of $195k (31 March 2019: $418k). The carrying value of $3,110k is after the exceptional write down of $2,700k made during the year (2019: nil).

The net inventory carrying value as at 31 March 2020 is $3,110k with an exceptional impairment charge of $2,700k being recognised within the consolidated statement of Profit and Loss for the year to 31 March 2020. In determining the impairment charge to be recognised, the directors applied a number of assumptions to estimate the net realisable value of inventory on a line by line basis. Historically the directors have determined net realisable value by reference to post year end demand and historic sales. However, as explained in the Combined Chief Executive and Chairman's report (see the second paragraph of the section headed "Review of the Year") various factors have significantly impacted on the markets in which Enteq operates, resulting in a higher degree of estimation uncertainty about future demand and reliance on historic sales. Consequently, less certainty and a higher degree of caution should be attached to the estimation of inventory net realisable value than would normally be the case. The directors have considered the estimation uncertainty, and while less certainty and a higher degree of caution needs to be attached to the estimation of inventory net realisable value, the estimate can still be relied upon. The directors therefore consider the inventory being carried at a value of $3,110k to be an accurate reflection of its net realisable value.

## 17. CASH AND CASH EQUIVALENTS

| | 31 March 2020 *$000's* | 31 March 2019 *$000's* |
|---|---|---|
| Denominated in USD | 9,074 | 11,771 |
| Denominated in GBP | 1,109 | 159 |
| | 10,183 | 11,930 |

## 18. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid ordinary shares of GBP 0.01 nominal value:

| | *Number 000's* | *Share Capital $000's* | *Share Premium $000's* |
|---|---|---|---|
| As at 1 April 2019 | 63,885 | 1,005 | 91,398 |
| Issued during the year | 1,604 | 23 | 181 |
| As at 1 March 2020 | 65,489 | 1,028 | 91,579 |

All shares issued carry the same voting rights.

There were no costs associated with the share capital issued during the year.

The Companies Act 2006 abolished the concept of authorised share capital and, accordingly, there is no Limit on the maximum number of shares that may be allotted by the Company.

## 19. TRADE AND OTHER PAYABLES

| | 31 March 2020 *$000's* | 31 March 2019 *$000's* |
|---|---|---|
| Trade payables | 727 | 1,157 |
| Accrued expenses | 1,256 | 1,559 |
| Social security and other taxes | 164 | 232 |
| Other creditors | 27 | 89 |
| | 2,174 | 3,037 |

The management believe the carrying value is an approximation of the fair value. The average creditor days for the period ending 31 March 2020 is 50 days (2019: 70 days).

## 20. EMPLOYEE BENEFITS

**Enterprise Management Incentive Plan**

The Group has established a share option plan that entitles all employees to purchase shares in the Company. During the year to 31 March 2020 grants under the plan were made. In accordance with the scheme rules options are exercisable at the market price of the shares at the date of the grant once all vesting conditions have been met. Options vest after three years from the date of grant and expire after ten years. Options are settled by the issue of new shares.

The number and weighted average exercise prices of share options are as follows:

| | 31 March 2020 | | 31 March 2019 | |
|---|---|---|---|---|
| | *Weighted average exercise price (pence)* | *Number of options* | *Weighted average exercise price (pence)* | *Number of options* |
| Outstanding at the beginning of the period | 21.0 | 658,500 | 28.5 | 649,500 |
| Granted during the period | 31.0 | 214,000 | 31.5 | 219,000 |
| Exercised during the period | - | - | - | - |
| Forfeited during the period | 25.1 | (200,500) | 54.5 | (210,000) |
| Outstanding at the end of the period | 15.8 | 672,000 | 21.0 | 658,500 |
| Exercisable at the end of the period | 13.0 | 257,000 | 13.0 | 199,500 |
| | | | | |
| Highest exercise price (p) | 31.5 | | 31.0 | |
| Lowest exercise price (p) | 13.0 | | 13.0 | |

The weighted average remaining contractual life of all outstanding share options is 1,702 days (2019: 2,608 days). The fair value of services received in return for share options are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model and expectations of early exercise are incorporated into this model.

The grant made during the year were as follows:

| *Grant Date* | *June 2019* |
|---|---|
| Fair value for option at grant date (pence) | 9.2 |
| Weighted average share price at date of grant (pence) | 31.0 |
| Weighted average exercise price | 31.0 |
| Expected volatility | 50% |
| Option life | 10 years |
| Risk free interest rate | 2.5% |

The expected volatility is based on the historic volatility.

During the year, a credit of $1k (2019: $12k) has been included within the income statement in relation to the above options.

**Performance Share Plan**

On the 17 September 2014, a Performance Share Plan was introduced for the executive directors and other senior managers. In accordance with the scheme rules options are exercisable at the nominal value of the shares at the date of the grant once all vesting conditions have been met. Options vest after three years from the date of grant and expire after ten years. Options are settled in equity.

The number and weighted average exercise prices of share options are as follows:

| | 31 March 2020<br>*Number of options* | 31 March 2019<br>*Number of options* |
|---|---|---|
| Outstanding at the beginning of the period | 5,077,750 | 4,257,932 |
| Granted during the period | 1,430,245 | 1,974,026 |
| Exercised during the period | (1,146,154) | (548,592) |
| Lapsed during the period | (428,108) | (605,616) |
| Outstanding at the end of the period | 4,933,733 | 5,077,750 |
| Exercisable at the end of the period | 357,569 | 77,849 |

The weighted average remaining contractual life of all outstanding Performance Share Plan options is 1,981 days (2019: 3,040 days).

The fair value of services received in return for share options are measured by reference to the fair value of share options granted, measured using the Black-Scholes model and expectations of early exercise are incorporated into this model. The balance is adjusted each year in accordance with the number of awards expected to vest.

The grants made during the year were as follows:

| | *Non market based conditions* |
|---|---|
| Fair value for option at grant date (pence) | 13.0 |
| Share price at date of grant (pence) | 13.0 |
| Option life | 3 years |

During the year a charge of $299k (2019: $172k) has been included within the income statement as a charge, for the above options.

The charge of $298k (2019: $184k) shown in note 7 includes the charges for both the above schemes.

## 21. OPERATING LEASES

The Group has lease agreements in respect of properties and other equipment, for which payments extend over a number of years. The total gross payments over the life of these leases, split by maturity date and type, are as follows:

| At 31 March 2020 | Property<br>*$000's* | Equipment<br>*$000's* | Total<br>$000's |
|---|---|---|---|
| Within one year | 8 | 3 | 11 |
| Within two to five years | - | 7 | 7 |
| | 8 | 10 | 18 |

| At 31 March 2019 | Property<br>*$000's* | Equipment<br>*$000's* | Total<br>$000's |
|---|---|---|---|
| Within one year | 6 | 3 | 9 |
| Within two to five years | - | - | - |
| | 6 | 3 | 9 |

The lease expense during the year amounted to $28k (2019: $27k), representing the minimum lease payment.

## 22. OPERATING LEASES AS LESSOR

The Group leases out equipment under operating leases, the carrying value of which is shown in note 13.

Rental income during the year amounts to $4,791k (2019: $3,703k) included within revenue.

The lease contracts are all non-cancellable for 3 months from the commencement of the lease. As at 31 March 2020 there were no significant future minimum lease rentals (2019: nil). A balance of $1,418k relating to income under operating leases will mature before 31 March 2021. No balances mature after that date.

## 23. RELATED PARTY DISCLOSURES

**Transactions with key management personnel**

The remuneration of the current directors, who are the key management personnel of the Group, is set out in the remuneration committee report for each of the categories specified in IAS 24: 'Related party disclosures.

## 24. ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party.

## 25. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate, and currency and liquidity risk arises in the normal course of the Group's business. The Group's overall strategy to minimise this risk is discussed below.

Objectives, policies and procedures
Treasury operations are conducted within a framework of policies and guidelines authorised by the Board and are subject to internal control procedures. The objectives of the framework are to provide flexibility whilst minimising risk and prohibiting speculative transactions or positions to be taken.

The Group's principal financial instruments comprise cash and lines of bank credit. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit, interest rate, and currency and liquidity risks. The Board reviews and agrees policies for managing these risks and they are summarised below.

Credit risk
Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The group is exposed to credit risk from financial assets including cash and cash equivalents held at banks, trade and other receivables.

*Credit risk management*
The credit risk is managed on a group basis based on the Group's credit risk management policies and procedures. The credit risk in respect of cash balances held with banks and deposits with banks are managed via diversification of bank deposits, and are only with major reputable financial institutions.

The Group continuously monitors the credit quality of customers based on a credit rating scorecard. Where available, external credit ratings and/or reports on customers are obtained and used. The group's policy is to deal only with credit worthy counterparties. The credit terms range between 30 and 90 days. The credit terms for customers as negotiated with customers are subject to an internal approval process which considers the credit rating scorecard. The ongoing credit risk is managed through regular review of ageing analysis, together with credit limits per customer.

Trade receivables consist of a large number of customers in various industries and geographical areas.

*Security*
The Group does not hold any security on the trade receivables balance. In addition, the group does not hold collateral relating to other financial assets (e.g. derivative assets, cash and cash equivalents held with banks).

*Trade receivables*
The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics.

The expected loss rates are based on the payment profile for sales over the past 48 months before 31 March 2020 and 1 April respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. On this basis the expected loss associated with the outstanding unprovided trade debtor balances for is not material.

Trade receivables are written off when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

Interest rate risk
The Group's exposure to risk for changes in market interest rates relates primarily to the Group's cash and cash equivalents. The Group minimises that risk by using a series of short-term interest rate fixes.

A 1% increase in interest rates, in the average balances held on deposit during the year end, would result in an increase in finance income of $97k per annum.

Foreign currency risk
The Group is exposed to foreign currency risk on cash balances denominated in sterling, as its reporting currency is USD. The amount of currency held in sterling is reviewed on a regular basis, together with the cash flows denominated in sterling, to ensure that this risk is minimised.

The Group's funding strategy is to ensure that the business has sufficient resources to meet its various financial commitments on an on-going basis. It achieves this objective by actively monitoring its forecast cash flows and requirements. The Group is cautious in its approach, applying appropriate sensitivities to both the quantum and timing of its projections.

A 1% increase in the GBP/USD foreign exchange rate, on the GBP denominated year end cash balances, would result in a foreign exchange gain of $11k. The year-end balance was chosen due to the highly fluctuating level of GBP denominated cash held during the year.

Liquidity risk
The Group manages its liquidity risk by ensuring that the balances of cash on deposit gives it sufficient access to liquid funds to meet both its immediate and longer-term needs. In addition, the Group regularly reviews the access to commercial bank lines of credit.

Capital management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its current business, and allow it to take advantage of development opportunities when they arise therefore allowing the Group to maximise Shareholder value at all times.

The Group manages its capital structure, primarily Shareholders' equity, and makes adjustments to it, in light of changes in economic conditions and development opportunities. To maintain or adjust the capital structure, the Group may adjust the dividend payment to Shareholders, return capital to Shareholders or issue new shares. The Group's ordinary shares are quoted on the AIM market of the London Stock Exchange. This affords it access to investors which seek access to growth opportunities of the sort which the Group is targeting to acquire.

Debt is not employed in the Group at present and the limited working capital requirements are currently financed out of cash reserves. Details of the current equity structure can be seen on the Consolidated Statement of Financial Position. There are no capital requirements that are externally imposed.

No changes were made in the objectives, policies or processes during the year ending 31 March 2020.

Trade and other receivables/payables
The directors consider that the carrying amount of these balances approximates to their fair value.

The only allowances maintained by the Company for credit losses relate to allowances for bad and doubtful debts relating to trade receivables.

Categories of financial instruments
Financial liabilities and assets included in the Statement of Financial Position relate to the following IFRS9 categories:

**31 March 2020**

| | *Financial liabilities at amortised cost* | *Non-Financial Liabilities* | *Total for Statement of Financial Position heading* |
|---|---|---|---|
| | *$000* | *$000* | *$000* |
| **Statement of Financial Position headings – liabilities** | | | |
| Trade payables | 727 | - | 727 |
| Social security and other taxes | - | 164 | 164 |
| Other creditors | 27 | - | 27 |
| Accrued expenses | 1,256 | - | 1,256 |
| Total | 2,010 | 164 | 2,174 |

| | *Financial assets at amortised cost* | *Non-Financial Assets* | *Total for Statement of Financial Position heading* |
|---|---|---|---|
| | *$000* | *$000* | *$000* |
| **Statement of Financial Position headings – assets** | | | |
| Trade receivables | 1,770 | - | 1,770 |
| Prepayments | - | 173 | 173 |
| Other receivables | 82 | - | 82 |
| Cash and cash equivalents | 10,183 | - | 10,183 |
| Total | 12,035 | 173 | 12,208 |

**31 March 2019**

| | *Financial liabilities at amortised cost* | *Non-Financial Liabilities* | *Total for Statement of Financial Position heading* |
|---|---|---|---|
| | *$000* | *$000* | *$000* |
| **Statement of Financial Position headings – liabilities** | | | |
| Trade payables | 1,157 | - | 1,157 |
| Social security and other taxes | - | 232 | 232 |
| Other creditors | 89 | - | 89 |
| Accrued expenses | 1,559 | - | 1,559 |
| Total | 2,805 | 232 | 3,037 |

| | *Financial assets at amortised cost* | *Non-Financial Assets* | *Total for Statement of Financial Position heading* |
|---|---|---|---|
| | *$000* | *$000* | *$000* |
| **Statement of Financial Position headings – assets** | | | |
| Trade receivables | 2,089 | - | 2,089 |
| Prepayments | - | 123 | 123 |
| Other receivables | 142 | - | 142 |
| Cash and cash equivalents | 11,930 | - | 11,930 |
| Total | 14,161 | 123 | 14,284 |

The directors are of the opinion that there is no material difference between the book value and the fair value of any of the Group's assets or liabilities. The contractual maturity of all financial liabilities are as follows:

| | Within 3 months | 3 to 12 months | 12 to 18 months |
|---|---|---|---|
| | *$000's* | *$000's* | *$000's* |
| 31 March 2020 | 2,173 | - | - |
| 31 March 2019 | 3,037 | - | - |

## 26. CAPITAL COMMITMENTS

Other than those included in the statement of financial position, there were no material capital or other financial commitments in place at the year end. Further, there was no authorised but not contracted for capital expenditure at the year end.

## 27. POST-REPORTING DATE EVENTS

The impact of both COVID-19 and the significant deterioration in the oil and gas drilling market, particular in North America have been fully factored into various financial scenarios relating to future trading. The output of this modelling demonstrates that even in the case of a significant reduction in revenue the corresponding cost reduction measures and reduction in CAPEX and development spend will enable the Group to retain significant cash balances in both the near and medium term. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

The uncertainty as to the future impact on the Group of the recent Covid-19 outbreak in particular has been considered as part of the Group's adoption of the going concern basis. To date, we have not observed any material impact on our activities due to Covid-19 over and above that of the significant reduction in the North America rig count since the start of March 2020 and, indeed, the recently announced \$1.0m contract ward in China demonstrates the robustness of the post Covid-19 oil and gas drilling market in that country.

# Enteq Upstream Plc

## Company Statement of Financial Position

| | Notes | 31 March 2020<br>*$ 000's* | 31 March 2019<br>*$ 000's* |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible Fixed Assets | *3* | - | - |
| Investments | *4* | - | - |
| | | - | - |
| **Current assets** | | | |
| Trade and other receivables | *5* | 175 | 14,119 |
| Cash and cash equivalents | *6* | 9,530 | 11,212 |
| | | 9,705 | 30,331 |
| **Debtors: amounts falling due after one year** | | | |
| Inter-Company loan notes | *7* | 8,000 | 8,592 |
| **Creditors: amounts falling due within one year** | | | |
| Trade and other payables | *8* | (996) | (1,080) |
| **Total assets less current liabilities** | | **16,709** | **32,843** |
| **Capital and reserves** | | | |
| Called up share capital | *9* | 1,027 | 1,005 |
| Share premium | *9* | 91,579 | 91,398 |
| Share based payment reserve | | 1,048 | 750 |
| Retained earnings | | (76,945) | (60,310) |
| **Total equity** | | **16,709** | **32,843** |

The parent Company's loss for the financial year was $16,635k (2019: $4,270k). The financial statements were approved by the Board of Directors on 30 June 2020 and were signed on its behalf by:

**David Steel**

Director

The accounting policies and notes on pages 66 to 70 form part of these financial statements.

# Enteq Upstream Plc

## Company Statement of Changes in Equity

| | Called up share capital<br>*$ 000's* | Retained earnings<br>*$ 000's* | Share premium<br>*$ 000's* | Share based payment reserve<br>*$ 000's* | Total equity<br>*$ 000's* |
|---|---|---|---|---|---|
| **As at 1 April 2019** | **1,005** | **(60,310)** | **91,398** | **750** | **32,843** |
| Issue of share capital | 22 | - | 181 | - | 203 |
| Share based payment charge | - | - | - | 298 | 298 |
| Transactions with owners | 22 | - | 181 | 298 | 501 |
| Loss for the period | - | (16,635) | - | - | (16,635) |
| Other comprehensive expense for the year | - | - | - | - | - |
| Total comprehensive income | - | (16,635) | - | - | (16,635) |
| Total movement | 22 | (16,635) | 181 | 298 | (16,134) |
| **As at 31 March 2020** | **1,027** | **(76,945)** | **91,579** | **1,048** | **16,709** |

| | Called up share capital<br>*$ 000's* | Retained earnings<br>*$ 000's* | Share Premium<br>*$ 000's* | Share based payment reserve<br>*$ 000's* | Total equity<br>*$ 000's* |
|---|---|---|---|---|---|
| **As at 1 April 2018** | **982** | **(56,384)** | **91,031** | **910** | **36,539** |
| Issue of share capital | 23 | - | 367 | - | 390 |
| Share based payment credit | - | - | - | 184 | 184 |
| Transfer of reserves | - | 344 | | (344) | - |
| Transactions with owners | 23 | 344 | 367 | (160) | 574 |
| Loss for the period | - | (4,270) | - | - | (4,270) |
| Other comprehensive expense for the year | - | - | - | - | - |
| Total comprehensive income | - | (4,270) | - | - | (4,270) |
| Total movement | 23 | (3,926) | 367 | (160) | (3,696) |
| **As at 31 March 2019** | **1,005** | **(60,310)** | **91,398** | **750** | **32,843** |

The accounting policies and notes on pages 66 to 70 form part of these financial statements.

# Notes to the Company Statement of Financial Position

## For the year to 31 March 2020

1. **SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting**
Enteq Upstream Plc is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given in the Company Information found on page 3.

**Statement of compliance**
These financial statements have been prepared in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 101 – 'The Reduced Disclosure Framework' (FRS 101). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have all been applied consistently throughout the year unless otherwise stated.

**Basis of preparation**
The financial statements have been prepared on a going concern basis under the historical cost convention.

The board regularly reviews the Company’s resources to ensure they are sufficient to continue trading for the foreseeable future. It is therefore considered appropriate to use the going concern basis to compile these financial statements. The main requirement is for sufficient financial resources to maintain the overhead required to fulfil the pipeline of business.

The financial statements are presented in US dollars as the majority of the Company’s subsidiaries’ activities and transactions are in US dollars.

Management notes that the Company's strategy is to invest in services aligned to the oil and gas industry, an industry which trades principally in US$. All future operations and sources of funding are also expected to be located in the US for the foreseeable future.

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The Company’s profit is disclosed on page 61.

In preparing these financial statements the Company has taken advantage of the following disclosure exemptions conferred by FRS 101:

- The requirements of IAS 24: related party disclosures to disclose related party transactions entered in to between two or more members of the group as they are wholly owned within the group;
- Presentation of comparative reconciliations for intangible assets and property, plant and equipment;
- Disclosure of key management personnel compensation;
- Capital management disclosures;
- Presentation of a comparative reconciliation of the number of shares outstanding at the beginning and at the end of the period;
- The effect of future accounting standards not adopted;
- Presentation of a cashflow statement;
- Certain share-based payment disclosures; and
- Disclosures in respect of financial instruments (other than disclosures required as a result of recording financial instruments at fair value).

**Foreign currencies**
Foreign currency transactions are translated into the local currency of the Company, US dollars, using the exchange rates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date).

**Tangible assets**
Tangible assets are stated at cost less accumulated depreciation and any impairment in value. The initial cost of an asset comprises its purchase price or construction cost, and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

The estimated useful lives are determined separately for each category and are as follows:

| | |
|---|---|
| Computer equipment | 3 years |
| Office equipment | 1 year |

A tangible fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the administrative expenses in the year the item is derecognised.

**Investments**
Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

**Financial liabilities and equity**
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

**Trade and other payables**
Trade and other payables are not interest-bearing and are recognised initially at fair value. Subsequently they are carried at amortised cost.

**Amounts due from or to group companies**
Amounts due from or to group companies are initially recognised at fair value being the present value of future interest and capital receipts discounted at the market rate of interest for a similar financial asset or liability. For group loans which are due on demand or where there is no significant difference between the amount due/payable and fair value on initial recognition then such loans are carried at the amount due/payable on an amortised cost basis. Interest receivable or payable on the loan is recognised in profit or loss under the effective interest method. The ability of the group entity to repay their respective balances are reviewed at the end of each reporting period and the appropriate impairment recognised. As the only balance is with Enteq Upstream USA Inc. this impairment review is based on the ability of this entity to generate cash in both the short and medium term.

**Equity instruments**
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

**Equity, reserves and dividend payments**
Share capital represents the nominal value of shares that have been issued. Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Retained earnings include all current and prior period retained profits. All transactions with owners of the parent are recorded separately within equity. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

**Share based payment reserve**
Represents the total accumulated share-based payment charge less any amounts transferred following the issue of the relevant shares.

**Taxation**
Current tax, including UK corporation tax and foreign 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 Statement of Financial Position date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the Statement of Financial Position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Statement of Financial Position date. Temporary differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

**Share based payments**
All employees receive remuneration in the form of share-based payment transactions, whereby they render services in exchange for rights over shares under the Enterprise Management Incentive Plan option scheme. The executive directors and other senior managers receive remuneration in the form of share-based payment transactions, whereby they render services in exchange for rights over shares under the Performance Share Plan. Both these schemes have options that vest three years after the date of grant. The total amount to be expensed over the vesting period of the options is determined by reference to the fair value at the date of granting and the number of awards that are expected to vest. The fair value is based upon a Black-Scholes model taking into account different scenarios for the possible outcomes of the Company's investment activities, using management's best estimates of these likely outcomes. The total expense is based upon initial conditions and will crystallise smoothly over the vesting period without reassessment of the initial fair value. The charge is annually reassessed, based on the total number of options expected to vest. In addition, where there are changes to the terms of any agreements, the fair value is reassessed at that time. The movement in cumulative expense is recognised in the profit and loss, with a corresponding entry to the share-based payment reserve.

On 17 September 2014, the Company introduced a Performance Share Plan ("PSP") for the Executive Directors and other key senior managers. The awards at the nominal value of the shares, but the exercise of which is subject to certain performance conditions and is at the total discretion of the Remuneration Committee.

## 2. LOSS FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The parent Company's loss for financial year was $16,635k (2019: $4,270k).

## 3. TANGIBLE FIXED ASSETS

| | Computer equipment *$000's* | Office equipment *$000's* | Total *$000's* |
|---|---|---|---|
| **Cost:** | | | |
| As at 1 April 2019 and 31 March 2020 | 10 | 5 | 15 |
| **Depreciation:** | | | |
| As at 1 April 2019 | 10 | 5 | 15 |
| Charge for the year | - | - | - |
| As at 31 March 2020 | 10 | 5 | 15 |
| **Net Book Value:** | | | |
| As at 1 April 2019 | - | - | - |
| As at 31 March 2020 | - | - | - |

## 4. INVESTMENTS

| | Shares in Group undertakings *$000's* |
|---|---|
| **Cost** | |
| As at 1 April 2019 and 31 March 2020 | 23,285 |
| **Impairment** | |
| As at 1 April 2019 and 31 March 2020 | 23,285 |
| **Net book value** | |
| As at 1 April 2019 and 31 March 2020 | - |

The Group or the Company's investments at the Statement of Financial Position date in the share capital of companies represent the following:

| **Name** | **Country of incorporation** | **Nature of business** | **Holding** |
|---|---|---|---|
| Enteq Upstream USA Inc. | United States of America | Manufacturer of down hole drilling equipment | 100% |
| Jeteq Drilling Limited | England & Wales | Dormant | 100% |

## 5. DEBTORS

| *Amounts falling due within one year:* | 31 March 2020 *$000's* | 31 March 2019 *$000's* |
|---|---|---|
| Amounts owed by Group undertakings: | | |
| Gross amount owed | 20,679 | 18,936 |
| Provision | (20,679) | (5,000) |
| | - | 13,936 |
| Prepayments | 94 | 41 |
| Accrued interest receivable | 74 | 127 |
| VAT recoverable | 7 | 15 |
| | 175 | 14,119 |

The management believe that the carrying value is an approximation of fair value.

6. **CASH AT BANK AND IN HAND**

| | 31 March 2020 *$000's* | 31 March 2019 *$000's* |
|---|---|---|
| Denominated in USD | 8,421 | 11,054 |
| Denominated in GBP | 1,109 | 158 |
| | 9,530 | 11,212 |

7. **INTER-COMPANY LOAN NOTES**

| | 31 March 2020 *$000's* | 31 March 2019 *$000's* |
|---|---|---|
| Receivable from Enteq Upstream USA Inc: | | |
| As at 1 April | 37,928 | 37,928 |
| Provision relating to the above | (29,928) | (29,336) |
| As at 31 March | 8,000 | 8,592 |

8. **CREDITORS**

| | 31 March 2020 *$000's* | 31 March 2019 *$000's* |
|---|---|---|
| Accrued expenses | 669 | 910 |
| Trade payables | 291 | 3 |
| Social security and other taxes | 36 | 87 |
| Other creditors | - | 80 |
| | 996 | 1,080 |

The management believe the carrying value is an approximation of the fair value. The average creditor days for the period ending 31 March 2020 is 62 days (2019: 30 days).

9. **CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid ordinary shares of GBP 0.01 nominal value:

| | *Number 000's* | *Share Capital $000's* | *Share Premium $000's* |
|---|---|---|---|
| As at 1 April 2019 | 63,885 | 1,005 | 91,398 |
| Issued during the year | 1,604 | 22 | 181 |
| As at 1 March 2020 | 65,489 | 1,027 | 91,579 |

All shares issued carry the same voting rights.

10. **RELATED PARTY DISCLOSURES**

Details of directors' remuneration and other transactions are set out on pages 18 to 20.

11. **ULTIMATE CONTROLLING PARTY**

There is no ultimate controlling party.