Enteq Upstream plc

(“Enteq”, the “Company” or the “Group”)

Final results for the year ended 31 March 2020

AIM traded Enteq Upstream plc, the oil and gas drilling technology company, today announces its results for the year ended 31 March 2020.

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

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)

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

Martin Perry, CEO of Enteq Upstream plc, commented:

“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.”

[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.

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Chris Treneman, Patrick Robb, David Anderson

Combined Chief Executive and Chairman's report

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.

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.

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 Report and Accounts

The 2020 Annual Report and Accounts has today been sent to shareholders and is available on the Company's website, www.enteq.com.

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 at the Company's office in Amersham with the minimum quorum of attendees facilitated by the Company.

David Steel

Finance Director

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	*2*	**10,903**	10,204
Cost of Sales		**(4,256)**	(3,546)
Gross Profit		**6,647**	6,658
Administrative expenses before amortisation		**(7,269)**	(6,952)
Amortisation of acquired intangibles	*6b*	**(217)**	(116)
Other exceptional items	*3*	**(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		**250**	246
Loss before tax		**(7,838)**	(165)
Tax	*4*	**-**	67
Loss for the period		**(7,838)**	(98)
Loss attributable to:			
Owners of the parent		**(7,838)**	(98)
Loss per share (in US cents):	*5*		
Basic		**(12.1)**	(0.2)
Diluted		**(12.1)**	(0.2)

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)

Consolidated Statement of Financial Position

	Notes	*As at 31 March 2020*	*As at 31 March 2019*
	Notes	*$ 000's*	*$ 000's*
Assets			
Non-current			
Goodwill	*6a*	-	-
Intangible assets	*6b*	134	2,394
Property, plant and equipment		3,433	5,895
Trade and other receivables		-	334
Non-current assets		3,567	8,623
Current			
Trade and other receivables		2,025	2,020
Inventories		3,110	4,512
Cash and cash equivalents		10,183	11,930
Current assets		15,318	18,462
Total assets		**18,885**	27,085
Equity and liabilities			
Equity			
Share capital		1,027	1,005
Share premium		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		2,174	3,037
Total liabilities		2,174	3,037
Total equity and liabilities		**18,885**	27,085

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**

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**

1. BASIS OF PREPARATION

The results for the year ended 31 March 2020 have been prepared using the accounting policies and methods of computation consistent with those used in the Group's annual report for the year ended 31 March 2019. The results have also been presented and prepared in a form consistent with that which will be adopted in the Group's annual report for the year ended 31 March 2020 and in accordance with the recognition and measurement requirements of the International Financial Reporting Standards as adopted by the European Union.

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 March 2020 and the year ended 31 March 2019, but is derived from those accounts. Statutory accounts for 2019 have been delivered to Companies House. Those for the year ended 31 March 2020 will be delivered following the Company's Annual General Meeting on 29 September 2020.

The financial information has been extracted from the Group's Annual Report for the year ended 31 March 2020. The auditors have reported on these accounts; their reports were unqualified, but did draw attention to the uncertainty regarding the carrying value of the inventory by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006. The Group intends to publish its 2020 Annual Report and Accounts in July 2020.

2. 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).

3. 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.

4. 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 $ 000's	31 March 2019 $ 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.

5. 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).

6. 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)

c) 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.

7. GOING CONCERN

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.

8. RESPONSIBILITY STATEMENT OF THE DIRECTORS

To the best of the knowledge of the Directors (whose names and functions are set out below), the preliminary announcement has been prepared using accounting policies and methods of computation consistent with those used in the Group's annual report for the year ended 31 March 2019 and adopted for the financial year ended 31 March 2020, gives a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation taken as a whole; and

Pursuant to Disclosure and Transparency Rules, Chapter 4, the Directors' Report of the Company's annual report will include a fair review of the development and performance of the business taken, together with a description of the principal risks and uncertainties faced by the business.

Executive Directors

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

Non-Executive Directors

Iain Paterson	*Chairman*
Neil Hartley	