



President Energy PLC

Interim Report and Financial Statements 2019

Chairman's Statement

Summary

The first half of 2019 saw a noticeable improvement compared to what was itself a significantly improved H1 2018 in all the Group's key performance indicators including turnover, adjusted EBITDA and production costs.

Such solid year on year results were delivered notwithstanding an unforeseen combination of challenging headwinds producing a deluge of adverse events beyond President's control, affecting both Argentina and Louisiana. These included:

- In Argentina, a series of down-hole issues affecting some of the high impact production wells and electrical outages impacting average field performances in our core Puesto Flores field on top of natural declines; and
- in Louisiana, unprecedented levels of flooding resulting in the shutting-in of the entire production from all wells there for some three months which straddled the period under review as well as the first part of H2.

In total 10 workovers at the main Puesto Flores field were completed in the period with the objective of stemming both the expected and unexpected losses in production and to make production less reliant on the relatively few high impact wells in the core Rio Negro province. Whilst these met with mixed success, the learnings were very valuable and the work was beginning to show positive signs towards the end of the first half which has now continued into H2 2019. The frac conducted in well PFO-16 has proved successful with production still double the pre-frac level. Further fracs will be effected in the field in due course and studies continue in this regard.

In other work, the Puesto Prado field and associated facilities were recommissioned and placed into operation and the Las Bases gas facilities were successfully tested and further detailed sub-surface studies were conducted in relation to the Paraguay exploration areas.

Post period, a further eight workovers have been completed at the Company's fields in the Rio Negro Province with work currently continuing at the Puesto Flores field. The Estancia Vieja field and necessary facilities have now also been brought back into production after some eight years lying idle. Gas sales from that field will commence shortly. Elsewhere in Argentina, the Puesto Guardian field production remains stable.

Work has now also started on the building, completion and commissioning of a brand new 16 km section of 6" steel pipeline to be laid between Puesto Prado and Las Bases, replacing the limited capacity 3" flexible pipeline between those points. This will enable the significant increase in gas sales in the new year with a projected additional 1,850 boepd in spring 2020.

The Presidential elections are due to take place in Argentina on 27 October 2019. On 11 August 2019 the primary elections took place, the result of which saw the Peronist Frente de Todos party securing 47.65% of the electoral vote; a 15.57% margin over the Macri administration. This result was not anticipated by the investing community and global markets with a significant fall occurring in both the Merval index and US Dollar:Peso exchange rate following the announcement. This was likewise reflected in the sharp and, in our view, overdone drop in the Company's share price. Such a fall, at

least in the currency, has to a certain extent corrected and the peso has strengthened from a low of over 63 to the Dollar to approximately 57 currently.

In an aim to reduce pressure on consumers in the short-term, the Government passed a Decree on 16 August 2019 which fixed the crude oil and gasoline prices for 90 days (to mid-November). The original Decree set a Brent reference price of US\$59/bbl and a US Dollar:Peso exchange rate of 45.19. Following pressure from Provinces, unions and producers, this fixed exchange rate has now been increased via a series of decrees to the present level of 49.30 pesos to the Dollar; there is media speculation that further positive adjustments will follow although nothing concrete can be said at this stage.

With the US Dollar:Peso exchange rate currently fixed at 49.30, being lower than the current rate of exchange the original Decree as amended, has had and is having an impact on the Company due to the fact that all domestic oil sales contracts are paid in Pesos. Accordingly realised sales revenues in H2 will be lower than expected at the start of this year. This decline has however been partially offset by lower Peso denominated costs.

It remains difficult to forecast where the domestic oil price for producers will land after the end of the temporary restrictions in November (if they are at that stage still in place) as well as the future of the temporary exchange control issues brought in recently. Nevertheless, there is a cautious but increasing and welcome air of realism and understanding from both the major political parties as to the importance to Argentina of its hydrocarbon industry, specifically the need for it to continue to be attractive for investors. Whatever happens, President's laser focus on delivery, margins and cash management means its stress tested business model remains solid and robust.

In Louisiana, the wells have now been placed back in production after an extensive workover of the highest producing Triche well due to lower oil and gas and higher water flow. This and the historic flooding led to production in the period falling by 42.2%. After the workover, the Triche well, which is considered to be still cleaning up, is at present delivering reduced production compared to pre flood levels. This is down from 260 bopd gross at the start of the year to some 55 bopd gross currently with a similar reduction in gas sales. Whilst remaining profitable at these reduced levels, President is monitoring progress at the Triche well after its long shut-down and workover period and considering future action and strategy regarding these non-core and non-material assets. The Company is scheduled to start drilling in Q4 2019 at Jefferson Island, where it has a 20% operated interest.

It remains to extend the Director's appreciation to our management and staff, our shareholders, our partners, EDHIPSA and all the Government, Provincial and Regulatory authorities wherever we conduct business for their continued support.

Financials

- Group turnover in H1 2019 increased by 6.4% to US\$23.3 million against the same period in 2018. This is in spite of lower realised prices (approximately 11% lower on average year on year and 12% less than the last half of 2018) as well as production losses suffered in both Argentina and Louisiana.
- Adjusted EBITDA for the period increased by 29% over the same period last year to nearly US\$8 million.
- Free cash from core operations increased by 11.4% year on year to US\$9.7 million.
- Net Group average production in the H1 period increased by 19.3% over same period last year to 2,461 boepd notwithstanding the issues referred to above. This was approximately split between Rio Negro assets 76%, Salta 17% and Louisiana 7% with gas representing less than 5% of the total
- Group well operating costs per boe (excluding royalties and production taxes) fell by 15% over the previous year to US\$19.9 per boe.
- Group administration expenses per boe fell by 12.7% to US\$6.4 per boe over the same period in 2018.
- In the first part of H1 2019 the Company raised US\$4.1 million net after expenses by way of a placing of shares at 8p per share.
- The Company remains operationally profitable, free cash flow generative at field level with operational profits for the first three months of H2 in Argentina still projected, taking into account reduced realisation prices, to be approximately US\$3.5 million on a reduced level of G&A compared with the previous three months.
- Accordingly, whilst the results for the whole of H2 2019 are not currently projected to materially improve upon the levels for the same period in 2018, the present period is expected to be operationally profitable on a month by month basis with progress on a number of fronts including gas production.

Argentina

- The 10 well workovers completed in the period in the Puesto Flores field partially mitigated both natural declines, disruptions to productions and unexpected issues in high impact oil producing wells. Another three to four workovers will be carried out by the end of H2 2019.
- Both the Puesto Prado and Las Bases Concessions together with the strategic pan-regional pipeline were integrated into the Group and both fields are contributing to production.
- As previously advised, whilst the current economic and political volatility in Argentina prevails, we have deferred this year's drilling campaign in favour of greater near term emphasis on progressing and expanding our existing gas project. It is now anticipated well drilling will commence in H1 2020 with an initial emphasis on new gas wells.
- Initial gas sales from Estancia Vieja will commence shortly; the sales will then ramp up significantly once the new section of pipeline is completed towards the end of this year.

Paraguay

- The farm-out process in Paraguay also continues without at this stage any material developments.
- Extensive sub-surface work was carried out in the period under review to identify drilling locations for the first well and volumetrics. A brief summary presentation of part of such work issued in June 2019 can be found on the Company's website www.presidentenergypc.com. The work re-validates the prospectivity of the Pirity block and in particular the mean oil in place estimations for the initial Delray complex targets which are over 220 million barrels of oil.
- It remains the intention that exploration drilling will commence in 2020. Further details in relation to timing will be given before the end of this year.

Louisiana

- Louisiana continues to contribute production, profits and cash to President, albeit substantially less than last year due to the above referred to factors.
- Net production to President is currently approximately 75 boepd, solely due to the reduced performance of the Triche well. This gives a projected monthly cash contribution back to the UK of approximately US\$50,000 cash at present oil prices.
- USA average realised oil prices decreased in period by 10% to US\$58.5 per barrel and are currently realising around US\$60 per barrel.

Outlook

- President views the outlook for the Company positively and with confidence.
- Whilst the macro circumstances in Argentina have been volatile of late, there have been early signs that stability is returning. Furthermore, we are comforted by the fact that all Presidential candidates acknowledge that the domestic hydrocarbon industry needs continued investment with satisfactory returns for investors and remains key to the future prosperity of Argentina.
- Current net Group production is 2,422 boepd with a further 250 boepd due to be brought online from Rio Negro in October. The Rio Negro assets are contributing the lions share at approximately 79%, followed by Salta at 18% and the balance representing reduced production from Louisiana. Of the total still less than 5% represents gas though this will now start to increase in October as gas production starts to come online with the first Estancia Vieja gas sales.
- The Company remains operationally profitable, free cash flow generative at field level with, in Argentina, unaudited operational profits in the first three months of H2 still projected to be some US\$3.5 million on a reduced level of G&A compared with the prior three months.
- The next four or so months will see continued growth for the Group as President develops a more balanced portfolio including profitable, low cost gas developments which we expect, all factors being equal, to deliver from our existing well stock an additional ca. 1,850 boepd in spring 2020.

- Net Group average production for the full year 2019 is now projected to be ca. 2,600 boepd, up 13.5% year on year (2018: 2,279 boepd), with the benefits of the substantially increased gas production only being felt from the end of the year once the building of the enlarged pipeline between Puesto Prado and Las Bases is completed.
- Internal projections for 2020 therefore show a materially increased average in the range 4-5,000 boepd with a significantly increased proportion of gas all from our Rio Negro assets rising from less than 5% currently to some 30% of the next year.

“President continues with its business in a focussed, calm, determined and confident way.

“Despite an unforeseen confluence of challenges this year, we have in H1 2019 delivered demonstrable improvements in all our key performance indicators over the same period last year.

“In this context, this solid set of results and continuing profitable operations are a reflection of the strength of President and its assets and a stark contrast to the disconnected share price performance of late.”

Peter Levine

Executive Chairman

30th September 2019

Glossary of terms

MMboe	Million barrels of oil equivalent
Boepd	Barrels of oil equivalent per day
Bopd	Barrels of oil per day
MMbbls	Million barrels of oil
MMBtu	Million British Thermal Units (gas)
Tcf.	Trillion cubic feet (gas)

Production means the production that a Concession owner has the legal and contractual right to retain

Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2019

	Note	6 months to 30 June 2019 (Unaudited) US\$000	6 months to 30 June 2018 (Unaudited) US\$000	Year to 31 Dec 2018 (Audited) US\$000
Continuing Operations				
Revenue		23,315	21,907	47,181
Cost of sales				
Depletion, depreciation & amortisation		(4,332)	(3,511)	(7,245)
Other cost of sales		(13,891)	(13,821)	(25,207)
Total cost of sales	3	(18,223)	(17,332)	(32,452)
Gross profit/(loss)		5,092	4,575	14,729
Administrative expenses	4	(2,866)	(2,752)	(6,059)
Operating profit / (loss) before impairment charge and non-operating gains / (losses)		2,226	1,823	8,670
Presented as:				
Adjusted EBITDA		7,931	6,128	16,660
Non-recurring items		(1,201)	(634)	(2,275)
EBITDA excluding share options		6,730	5,494	14,385
Depreciation, depletion & amortisation		(4,347)	(3,526)	(7,291)
Release of abandonment provision		-	-	1,817
Share based payment expense		(157)	(145)	(241)
Operating profit / (loss)		2,226	1,823	8,670
Impairment charge	5	-	-	2,610
Non-operating gains /(losses)	6	33	(79)	(29)
Profit/(loss) after impairment and non-operating gains and (losses)		2,259	1,744	11,251
Finance income	7	221	215	394
Finance costs	7	(2,231)	(2,386)	(5,565)
Profit / (loss) before tax		249	(427)	6,080
Income tax (charge)/credit				
Current tax income tax (charge)/credit		-	-	(19)
Deferred tax being a provision for future taxes		(1,607)	(4,164)	(5,941)
Total income tax (charge)/credit		(1,607)	(4,164)	(5,960)
Profit/(loss) for the period from continuing operations		(1,358)	(4,591)	120
Other comprehensive income				
- Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		-	-	-
Total comprehensive profit/(loss) for the period attributable to the equity holders of the Parent Company		(1,358)	(4,591)	120
Earnings/ (loss)per share from continuing operations				
Basic earnings/ (loss) per share	8	(0.12)	(0.47)	0.01
Diluted earnings / (loss) per share	8	(0.12)	(0.47)	0.01

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

		30 June 2019 (Unaudited) US\$000	30 June 2018 (Unaudited) US\$000	31 Dec 2018 (Audited) US\$000
	Note			
ASSETS				
Non-current assets				
Intangible exploration and evaluation assets	9	104,027	103,470	103,950
Goodwill		705	705	705
Property, plant and equipment	9	93,945	72,197	92,117
		<u>198,677</u>	<u>176,372</u>	<u>196,772</u>
Deferred tax		1,726	950	1,800
Other non-current assets		351	351	351
		<u>200,754</u>	<u>177,673</u>	<u>198,923</u>
Current assets				
Trade and other receivables	10	13,756	10,643	10,658
Stock		-	82	84
Cash and cash equivalents		197	2,054	1,970
		<u>13,953</u>	<u>12,779</u>	<u>12,712</u>
TOTAL ASSETS		<u>214,707</u>	<u>190,452</u>	<u>211,635</u>
LIABILITIES				
Current liabilities				
Trade and other payables		22,448	18,294	23,739
Lease liability (IFRS16)		479	-	-
Borrowings	11	4,236	2,460	3,792
		<u>27,163</u>	<u>20,754</u>	<u>27,531</u>
Non-current liabilities				
Long-term provisions		4,507	5,239	4,509
Lease liability (IFRS16)		625	-	-
Borrowings	11	23,692	18,698	26,306
Deferred tax		8,390	4,230	6,857
		<u>37,214</u>	<u>28,167</u>	<u>37,672</u>
TOTAL LIABILITIES		<u>64,377</u>	<u>48,921</u>	<u>65,203</u>
EQUITY				
Share capital		24,353	23,642	23,654
Share premium		245,304	240,822	240,904
Translation reserve		(50,240)	(5,624)	(50,240)
Profit and loss account		(76,427)	(124,396)	(75,069)
Other reserve		7,340	7,087	7,183
TOTAL EQUITY		<u>150,330</u>	<u>141,531</u>	<u>146,432</u>
TOTAL EQUITY AND LIABILITIES		<u>214,707</u>	<u>190,452</u>	<u>211,635</u>

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Translation reserve	Profit and loss account	Other reserve	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Balance at 1 January 2018	23,642	240,822	(50,240)	(75,189)	6,942	145,977
Convertible loan equity	-	-	-	-	-	-
Transfer to P&L account	-	-	44,616	(44,616)	-	-
Share-based payments	-	-	-	-	145	145
Transactions with owners	-	-	44,616	(44,616)	145	145
Loss for the period	-	-	-	(4,591)	-	(4,591)
Exchange differences on translation	-	-	-	-	-	-
Total comprehensive income/(loss)	-	-	-	(4,591)	-	(4,591)
Balance at 30 June 2018	23,642	240,822	(5,624)	(124,396)	7,087	141,531
Share-based payments	-	-	-	-	96	96
Issue of ordinary shares	12	82	-	-	-	94
Cost of issue	-	-	-	-	-	-
Transfer to P&L account	-	-	(44,616)	44,616	-	-
Transactions with owners	12	82	(44,616)	44,616	96	190
Profit for the period	-	-	-	4,711	-	4,711
Exchange differences on translation	-	-	-	-	-	-
Total comprehensive income/(loss)	-	-	-	4,711	-	4,711
Balance at 1 January 2019	23,654	240,904	(50,240)	(75,069)	7,183	146,432
Share-based payments	-	-	-	-	157	157
Debt conversion	130	907	-	-	-	1,037
Issue of ordinary shares	569	3,985	-	-	-	4,554
Cost of issue	-	(492)	-	-	-	(492)
Transactions with owners	699	4,400	-	-	157	5,256
Loss for the period	-	-	-	(1,358)	-	(1,358)
Exchange differences on translation	-	-	-	-	-	-
Total comprehensive income/(loss)	-	-	-	(1,358)	-	(1,358)
Balance at 30 June 2018	24,353	245,304	(50,240)	(76,427)	7,340	150,330

Condensed Consolidated Statement of Cash Flows

Six months ended 30 June 2019

	6 months to 30 June 2019 (Unaudited) US\$000	6 months to 30 June 2018 (Unaudited) US\$000	Year to 31 Dec 2018 (Audited) US\$000
Cash flows from operating activities - (Note 12)			
Cash generated/(consumed) by operations	6,749	2,639	14,723
Taxes paid	-	-	(5)
	<u>6,749</u>	<u>2,639</u>	<u>14,718</u>
Cash flows from investing activities			
Expenditure on exploration and evaluation assets	(77)	(171)	(558)
Expenditure on development and production assets (excluding increase in provision for decommissioning)	(8,002)	(4,359)	(7,865)
Expenditure on decommissioning costs	(280)	1	(33)
Proceeds from asset sales	19	1,098	503
Acquisition & licence extension in Argentina	(1,135)	-	(15,806)
USA acquisition	-	-	(93)
Interest received	102	215	394
	<u>(9,373)</u>	<u>(3,216)</u>	<u>(23,458)</u>
Cash flows from financing activities			
Proceeds from issue of shares (net of expenses)	4,062	-	-
Loan drawdown	1,948	615	11,670
Repayment of loan capital	(3,081)	(616)	(2,206)
Payment of loan interest and fees	(1,875)	(1,195)	(2,713)
Repayment of obligations under leases	(242)	-	-
	<u>812</u>	<u>(1,196)</u>	<u>6,751</u>
Net increase/(decrease) in cash and cash equivalents	(1,812)	(1,773)	(1,989)
Opening cash and cash equivalents at beginning of year	1,970	4,026	4,026
Exchange (losses)/gains on cash and cash equivalents	39	(199)	(67)
Closing cash and cash equivalents	<u>197</u>	<u>2,054</u>	<u>1,970</u>

Notes to the half-yearly financial statements

Six months ended 30 June 2019

1 Nature of operations and general information

President Energy PLC and its subsidiaries' (together "the Group") principal activities are the exploration for and the evaluation and production of oil and gas.

President Energy PLC is the Group's ultimate parent company. It is incorporated and domiciled in England. The Group has onshore oil and gas production and reserves in Argentina and the USA. The Group also has onshore exploration assets in Paraguay and Argentina. The address of President Energy PLC's registered office is 1200 Century Way, Thorpe Park Business Park, Leeds LS15 8ZA. President Energy PLC's shares are listed on the Alternative Investment Market of the London Stock Exchange.

These condensed consolidated interim financial statements (the interim financial statements) have been approved for issue by the Board of Directors on 30th September 2019. The financial information for the year ended 31 December 2017 set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the six months ended 30 June 2019 and 30 June 2018 was neither audited nor reviewed by the auditor. The Group's statutory financial statements for the year ended 31 December 2018 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006

2 Basis of preparation

The interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2018, which have been prepared under IFRS as adopted by the European Union.

These financial statements have been prepared under the historical cost convention, except for any derivative financial instruments which have been measured at fair value. The accounting policies adopted in the 2019 interim financial statements are the same as those adopted in the 2018 Annual report and accounts other than for the implementation of the new International Financial Reporting Standard 16 on Leases. The Group implemented IFRS 16 on Leases effective from 1 January 2019 and further details are provided in note 13.

The Directors consider the Group as a going concern on the basis of its financial performance and support it receives from its principal funder IYA. Furthermore, the Directors consider that issues surrounding Brexit will have no material effect on the Group.

Notes for six months ended 30 June 2019

Continued

	6 months to 30 June 2019 (Unaudited) US\$000	6 months to 30 June 2018 (Unaudited) US\$000	Year to 31 Dec 2018 (Audited) US\$000
3 Cost of Sales			
Depreciation	4,332	3,511	7,245
Release of abandonment provision	-	-	(1,817)
Royalties & production taxes	4,730	4,428	8,265
Well operating costs	9,161	9,393	18,759
	<u>18,223</u>	<u>17,332</u>	<u>32,452</u>
4 Administrative expenses			
Directors and staff cost	2,399	1,904	3,673
Share-based payments	157	145	241
Depreciation	15	15	46
Other	295	688	2,099
	<u>2,866</u>	<u>2,752</u>	<u>6,059</u>
5 Impairment (credit) / charge			
DP1002 well in Argentina	-	-	(2,610)
	<u>-</u>	<u>-</u>	<u>(2,610)</u>
6 Non-operating gains / (losses)			
Reversal of provision for doubtful taxes	-	-	84
Other gains / (losses)	33	(79)	(113)
	<u>33</u>	<u>(79)</u>	<u>(29)</u>
7 Finance income & costs			
Interest income	102	215	394
Exchange gains	119	-	-
Finance income	<u>221</u>	<u>215</u>	<u>394</u>
Interest & similar charges	2,231	1,419	3,089
Exchange losses	-	967	2,476
Finance costs	<u>2,231</u>	<u>2,386</u>	<u>5,565</u>
8 Earnings / (loss) per share			
Net profit / (loss) for the period attributable to the equity holders of the Parent Company	<u>(1,358)</u>	<u>(4,591)</u>	<u>120</u>
	Number '000	Number '000	Number '000
Weighted average number of shares in issue	<u>1,126,561</u>	<u>971,173</u>	<u>1,072,106</u>
Earnings /(loss) per share	US cents	US cents	US cents
Basic	(0.12)	(0.47)	0.01
Diluted	<u>(0.12)</u>	<u>(0.47)</u>	<u>0.01</u>

Notes for six months ended 30 June 2019

Continued

9 Non-current assets

	Intangible	Property Plant and Equipment	Total
	US\$000	US\$000	US\$000
Cost			
At 1 January 2018	145,373	97,264	242,637
Additions	171	4,359	4,530
Disposals		(662)	(662)
At 30 June 2018	145,544	100,961	246,505
Additions	387	12,058	12,445
Acquisition & licence extension in Argentina	-	11,591	11,591
Acquisition USA	93	-	93
Disposals	-	36	36
At 1 January 2019	146,024	124,646	270,670
Additions	77	4,829	4,906
Right of use assets (IFRS16)	-	1,346	1,346
At 30 June 2019	146,101	130,821	276,922
Depreciation/Impairment			
At 1 January 2018	42,074	25,248	67,322
Disposals	-	(10)	(10)
Charge for the period	-	3,526	3,526
At 30 June 2018	42,074	28,764	70,838
Charge for the period	-	3,765	3,765
At 1 January 2019	42,074	32,529	74,603
Charge for the period	-	4,347	4,347
At 30 June 2019	42,074	36,876	78,950
Net Book Value 30 June 2019	<u>104,027</u>	<u>93,945</u>	<u>197,972</u>
Net Book Value 30 June 2018	<u>103,470</u>	<u>72,197</u>	<u>175,667</u>
Net Book Value 31 December 2018	<u>103,950</u>	<u>92,117</u>	<u>196,067</u>

No impairment indicators were noted at 31 December 2018 or existed at that balance sheet date. Subsequent to year end there has been increasing volatility and falls in the Merval index and US Dollar: Peso exchange rate following the announcement. In an aim to reduce pressure on consumers in the short-term, the government passed a decree on 16 August 2019 which fixes the crude oil and gasoline prices for 90 days. The decree sets a Brent reference price of US\$59/bbl and also set an exchange rate that would apply. These are short term developments subsequent to the year end that, at today's date, do not indicate a long term issue to the investment values held but will continue to be monitored by the Directors.

Notes for six months ended 30 June 2019

Continued

	30 June 2019 (Unaudited) US\$000	30 June 2018 (Unaudited) US\$000	31 Dec 2018 (Audited) US\$000
10 Trade and other receivables			
Trade and other receivables	13,649	10,594	10,295
Prepayments	107	49	363
	<u>13,756</u>	<u>10,643</u>	<u>10,658</u>

11 Borrowings

Current			
Bank loan	4,236	2,460	3,792
	<u>4,236</u>	<u>2,460</u>	<u>3,792</u>
Non-Current			
IYA Loan	19,373	13,735	19,851
Bank loan	4,319	4,963	6,455
	<u>23,692</u>	<u>18,698</u>	<u>26,306</u>
Total carrying value of borrowings	<u>27,928</u>	<u>21,158</u>	<u>30,098</u>

12 Reconciliation of operating profit to net cash outflow from operating activities

	6 months to 30 June 2019 (Unaudited) US\$000	6 months to 30 June 2018 (Unaudited) US\$000	Year to 31 Dec 2018 (Audited) US\$000
Loss from operations before taxation	249	(427)	6,080
Interest on bank deposits	(102)	(215)	(394)
Interest payable and loan fees	2,153	1,419	3,089
Depreciation and impairment of property, plant and equipment	4,347	3,526	7,291
Impairment charge	-	-	(2,610)
Release of abandonment provision	-	-	(1,817)
Gain on non-operating transaction	(33)	79	29
Share-based payments	157	145	241
Foreign exchange difference	(119)	967	2,476
Operating cash flows before movements in working capital	<u>6,652</u>	<u>5,494</u>	<u>14,385</u>
(Increase)/decrease in receivables	(3,427)	(4,070)	(4,483)
(Increase)/decrease in stock	84	(5)	(7)
(Decrease)/increase in payables	3,440	1,220	4,828
Net cash generated by/(used in) operating activities	<u>6,749</u>	<u>2,639</u>	<u>14,723</u>

13 Adoption of new IFRS16 lease accounting standard

The Group adopted IFRS 16 Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases, for the period commencing 1 January 2019. On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which were previously classified as operating leases under the provisions of IAS 17 Leases. The Group has identified leases predominantly for oil and gas production equipment but also for property and transportation equipment.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The discount rates used on transition are the incremental borrowing rates as appropriate for each lease based on factors such as the lessee legal entity and lease term. The incremental borrowing rate applicable for all of the leases for the Group is between 5.0% and 14.9%. The determination of whether there is an interest rate implicit in the lease, the calculation of the Group's incremental borrowing rate, and whether any adjustments to this rate are required, involves some judgement and is subject to change over time. At the commencement date of leases management consider whether the lease term will be the full term of the lease or whether any option to break or extend the lease is likely to be exercised. Leases are regularly reviewed and will be revalued if the term is likely to change.

In accordance with the transition provisions in IFRS 16, the modified retrospective approach has been adopted with the cumulative effect of initially applying the new standard recognised on 1 January 2019. Comparatives for the 2018 financial year have not been restated. The financial impact of transition to IFRS 16 for the first half of financial year 2019 has been summarised below. The Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value ('low-value assets'). The Group recognises lease expenses for these contracts on a straight-line basis as permitted by IFRS 16. Lease liabilities related to operated Joint Ventures are disclosed gross with the debit representing the partner's share disclosed in amounts due from Joint Venture Partners.

	On adoption 1 Jan 2019 (Unaudited) US\$000	30 Jun 2019 (Unaudited) US\$000
Balance sheet		
ASSETS		
Non-current assets	639	1,072
LIABILITIES		
Current liabilities	339	479
Non-current liabilities	300	876
Income statement		
Cost of sales		42
Administrative expense		4
Finance costs		(78)
Deferred tax		(251)