

# Half-year Report

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## **CADOGAN ENERGY SOLUTIONS PLC**

### **Half Yearly Report for the Six Months ended 30 June 2023**

**(Unaudited and unreviewed)**

#### **Highlights**

Cadogan Energy Solutions plc ("Cadogan" or the "Company"), an independent oil & gas company, listed on the main market of the London Stock Exchange, aiming to be a diversified energy company, is pleased to announce its unaudited results for the six months ended 30 June 2023.

- H1 2023 was another semester with severe challenges caused by the invasion of Ukraine by Russia since 24 February 2022. Cadogan could not avoid the temporary shutdowns of its production during this period due to the severe constraints arisen in the Country.
- H1 2023 has been another semester without LTI and TRI. All employees and assets have been secured.
- In H1 2023, the average production was 298 bpd in (336 bpd in H1 2022), a 11% decrease versus H1 2022.
- Cadogan has signed with PJSC Ukrnafta the extension of the wells Blazhiv-3 and Blazhiv-Monastrets-3 lease contracts for a 5-year period (previous contracts were for a 3-year period) ahead the expiry period which allowed to avoid production stoppage and secure cash flows.
- Cadogan completed the acquisition of the 5% of the share interest in Usenco Nadra LLC that was not yet owned by the Company and holds now 100% of Usenco Nadra LLC.
- In H1 2023, the services segment was dedicated totally to supporting the production activities in Ukraine. Production entities activities together with services entity activities are presented as Exploration and Production segment results.
- The production revenues decreased by 48% versus the same period in 2022, mainly due to a 36% decrease in the average realized oil price and a 11% decrease of the production volumes.
- In August 2022, Cadogan was informed of the arbitral proceeding award which:
  - rejected Proger's principal claim and declared that the Loan Agreement is valid and effective;
  - deemed to qualify the Call Option as a preliminary contract under condition, but
  - rejected Proger's claim ex art.2932 Italian Civil Code, stating that it is impossible to give an award producing the same effects of a final contract ex art.2932 Italian Civil Code,
  - this because of the duties established by the rules of the London Regulatory Authority and because of the need, possibly by both parties, to comply with the due proceedings before the formalization of the entry of Cadogan into the capital of Proger Ingegneria,

- subordinated the stipulation of the final contract to the precedent completion of the proceeding and bureaucratic process as per the British rules, stating that, otherwise,
- there is the obligation on Proger Ingegneria to return the payment received under the Loan Agreement,
- compensated all the expenses of the proceeding.

Proger refused to apply the requirements of the award and thus, Proger must reimburse the amount covered by the Loan Agreement plus interest accrued in the meantime.

- The cash position at the period end was \$14.2 million (30 June 2022: \$14.5 million). This level of cash is sufficient to sustain on-going operations.

Overall, Cadogan continued operating in an environment with tremendous challenges caused by the ongoing war in Ukraine. The Company is currently developing new initiatives to continue to improve its performance.

### Key performance indicators

During H1 2023, the Group has monitored its performance in conducting its business with reference to a number of key performance indicators ('KPIs'):

- to increase oil production measured on the barrels of oil produced per day ('bpd');
- to decrease administrative expenses;
- to increase the Group's basic earnings per share;
- to maintain no lost time incident;
- to grow and geographically diversify the portfolio; and
- to secure its staff and operations.

The Group's performance during the first six months of 2023, measured against these targets, is set out in the table below, together with the prior year performance data. No changes have been made to the sources of data or calculations used in the period/year. The positive trend in the HSE performances continues with zero incidents.

	Unit	30 June 2023	30 June 2022	31 December 2022
Average production (working interest basis) (a)	Boepd	298	336	323
Administrative expenses	\$million	1.6	1.6	3.4

Basic loss per share <sup>(b)</sup>	Cent	(0.1)	(0.7)	(0.6)
Lost time incident <sup>(c)</sup>	Incidents	-	-	-
Geographical diversification	New assets	-	-	-

- a. Average production is calculated as the average daily production during the period/year
- b. Basic loss per ordinary share is calculated by dividing the net loss for the year attributable to equity holders of the parent company by the weighted average number of ordinary shares during the period
- c. Lost time incident relate to injuries where an employee/contractor is injured and has time off work (IOGP classification)

Enquiries:

Cadogan Energy Solutions Plc		
Fady Khallouf	Chief Executive Officer	f.khallouf@cadogan-es.com
Ben Harber	Company Secretary	+44 (0) 207 264 4366

## Introduction

## Operations Review

First semester 2023 was another dramatic period for Ukraine. Urban and industrial infrastructure were destroyed, in particular, oil refineries as well as energy infrastructure have been severely damaged.

This situation has affected Cadogan's activities in Ukraine and impacted the Blazhiv wells production with temporary shutdowns, and consequent changes of crude oil

buyers portfolio due to the volatility in their ability to refine available volumes.

All legislative measures related to martial law introduced after the beginning of the war in 2022 remain in force. However, the government pursued the efforts for the modernization of its oil and gas regulatory framework, in particular by enforcing law #4187 which deregulates the subsoil sector, introduces a free market of licenses and simplifies access to the land.

In H1 2023, Cadogan employees in Ukraine continued operating in the combined (remote/ office) work mode. To date, all our employees are safe. In this context, the Group has continued to focus on safely and efficiently operating the existing wells, on controlling its costs and on cash preservation while continuing to look at opportunities to grow and diversify its portfolio.

## Operations

E&P activity remained focused on maintaining and securing its activities for the new term and safely and efficiently producing from the existing wells within the Blazhiv oil field. During H1 2023, the average gross production rated at 298 bpd, which is 11% lower than in H1 2022 (336 bpd). There have been several production stoppages of the wells during the winter period due to lower volumes of crude oil purchases by oil refineries.

Cadogan has signed with PJSC Ukrnafta the extension of Blazhiv-3 and Blazhiv-Monastyrtsi-3 wells lease contracts for a 5-year period. This was possible thanks to the solid professional cooperation between the parties during the past term and the mutual proactive and constructive approach.

All activities were executed without LTI or TRI<sup>[1]</sup>, with a total of 1,650,000 manhours since the last incident, which occurred to a sub-contractor in February 2016. CO2 emissions level in H1 2023 remained at nearly the same level with 125,08 tons of CO2,e/boe produced compared to 124,99 tons of CO2,e/boe for the same reporting period of the last year. The Company is actively working on a different technological scenario that will allow to substantially reduce emissions to the atmosphere.

In Italy, Exploenergy was notified that its projects (Reno Centese and Corsano) were located in compatible areas identified by the PITESAI, the Plan for the Sustainable Energy Transition of Suitable Areas. This plan delivers a new framework for the possible resumption of exploration and production activities on land and at sea. Exploenergy is currently in the qualification process as gas operator.

## Trading

The Company had no operations for the first half of 2023. Cadogan continues to monitor the gas markets in Europe and Ukraine.

## Proger

In February 2021, Cadogan notified Proger Managers & Partners Srl ("PMP") that according to the Loan Agreement, the Maturity Date occurred on 25 February 2021. As the Call Option was not exercised, PMP must fulfill the payment of EUR 16,430,992, being the reimbursement of the Loan in terms of principal and the accumulated interest. PMP is in default since 25 February 2021. End of March 2021, PMP requested an arbitration to have the Loan Agreement recognised as an equity investment contract, which is rejected by Cadogan as the terms of the Agreement are clear and include the right to repayment at maturity if the Call Option is not exercised.

As at 30 June 2022, Proger Ingegneria holds 96.49 % of Proger Spa after the exit of SIMEST and the purchase by Proger Ingegneria of its stake in Proger Spa. In August 2022, Cadogan was informed of the award in the arbitration proceeding which:

- rejected Proger's principal claim and declared that the Loan Agreement is valid and effective,
- deemed to qualify the Call Option as a preliminary contract under condition, but
- rejected Proger's claim ex art.2932 Italian Civil Code, stating that it is impossible to give an award producing the same effects of a final contract ex art.2932 Italian Civil Code,
- this because of the duties established by the rules of the London Regulatory Authority and because of the need, possibly by both parties, to comply with the due proceedings before the formalization of the entry of Cadogan into the capital of Proger Ingegneria,
- subordinated the stipulation of the final contract to the precedent completion of the proceeding and bureaucratic process as per the British rules, stating that, otherwise,
- there is the obligation on Proger Ingegneria to return the payment received under the Loan Agreement,
- compensated all the expenses of the proceeding.

Proger refused to apply the requirements of the award and thus, Proger must reimburse the amount covered by the Loan Agreement plus interest accrued in the meantime. Cadogan is taking the necessary legal actions to recover these amounts.

## Financial position

Cash at 30 June 2023 was \$14.2 million (\$14.5 million at 30 June 2022). The Group continually monitors its exposure to currency risk. It maintains a portfolio of cash mainly in US Dollars ("USD") and EURO held primarily in the UK.

The Directors believe that the capital available at the date of this report is sufficient for the Group to continue its operations for the foreseeable future.

In H1 2023, the Group held working interests in an oil production licence in the West of Ukraine. It is operated by the Group and is located in the prolific Carpathian basin, close to the Ukrainian oil & gas distribution infrastructure.

The Group's primary focus during the period continued to be on cost optimisation and enhancement of current production, through the existing well stock and new drilling.

Summary of the Group's licences (as of 30 June 2023)			
Working interest (%)	Licence	Expiry	Licence type
100	Blazhiv	November 2039	Production

Below we provide an update to the full Operations Review contained in 2022 Annual Report published on 28 April 2023.

### Blazhiv licence

Through the reporting period the Company has been working to safely and efficiently producing from the existing wells located in the Blazhiv licence area. At the end of the reporting period, the average gross production rated at 298 bpd vs 336 bpd in H1 2022. There have been several production stoppages of the wells during the winter period due to the reduction of crude oil consumption by oil refineries caused by Russian air strikes or by power outage due to similar strikes on electricity infrastructure.

Cadogan has signed the extension of Blazhiv-3 and Blazhiv-Monastyrets-3 wells lease contracts for a 5-year period with PJSC Ukrnafta ahead the expiry period which allowed to avoid production shutdown. This was possible thanks to the solid professional cooperation between the parties during the past term and the proactive and constructive approach of both.

### Service Company activities

In H1 2023, Astro Service LLC, focused its activities on serving intra-group operational needs in wells' work-over/ re-entry operations, wells' survey as well as field on-site activities. Production and service activities will be presented solely as Exploration and Production segment result.

## Financial Review

### Overview

#### Income statement

In H1 2023, revenues decreased to \$2.4 million (H1 2022: \$4.6 million) due to the decrease of the realised price by 36% and the decrease in the produced volumes of oil by 12%.

Trading business had no activities during the first half of 2023.

The cost of sales of the production segment consists of \$1 million of production royalties (\$1.9 million), \$0.7 million of operating costs (\$0.7 million), \$0.3 million of depreciation and depletion of producing wells (\$0.4 million), and \$0.07 million of direct staff costs for production (\$0.15 million).

Half year gross profit from production activities decreased to \$0.32 million (30 June 2022: increased to \$1.5 million), driven by decrease in production and lower oil prices.

The Group recorded a \$0.7 million interest on Proger Loan. Due to expected delay in the loan reimbursement, the Company recognized additional provision of \$350 thousand. Please refer to note 11 for details.

Other administrative expenses were kept under control at \$1.6 million (30 June 2022: \$1.6 million). They comprise other staff costs, professional fees and expenses, Directors' remuneration and depreciation charges on non-producing property.

#### Balance sheet

At 30 June 2023, the cash position of \$14.2 million (30 June 2022: \$14.5 million) increased compared to the \$13.9 million as at 31 December 2022.

The Property, Plant and Equipment ("PP&E") balance of \$6.4 million at 30 June 2023 (30 June 2022: \$8.6 million, 31 December 2022: \$6.6 million) includes the development and production assets on the Blazhivska licence and other PP&E of the Group.

Trade and other receivables of \$0.2 million (30 June 2022: \$0.4 million, 31 December 2022: \$0.3 million) includes recoverable VAT of \$0.1 million (30 June 2022: \$0.1 million, 31 December 2022: \$0.07 million), \$0.1 million of other receivables and prepayments (30 June 2022: \$0.3 million, 31 December 2022: \$0.2 million).

The \$1.9 million of trade and other payables as of 30 June 2023 (30 June 2022: \$1.3 million, 31 December 2022: \$1.4 million) represent \$1.5 million (30 June 2022: \$0.9 million, 31 December 2022: \$0.8 million) of other creditors and \$0.4 million of accruals (30 June 2022: \$0.4 million, 31 December 2022: \$0.6 million).

#### Cash flow statement

The Consolidated Cash Flow Statement shows positive cash-flow from operating activities of \$0.1 thousand (30 June 2022: neutral, 31 December 2022: negative \$0.9 thousand). Cashflow, before movements in working capital, shows an outflow of \$0.9 thousand (30 June 2022: inflow \$0.3 thousand, 31 December 2022: inflow \$0.2 million).

Group capital expenditure was \$0.1 million: investment into subsidiaries (purchase of the non-controlled stake in Usenco-Nadra) and investment in Property, Plant and Equipment which related to the Blazhivska licence.

#### Commitments

There has been no material change in the commitments and contingencies reported as at 31 December 2022 (refer to page 80 of the Annual Report).

#### Treasury

The Group continually monitors its exposure to currency risk. It maintains a portfolio of cash mainly in US dollars ("USD") and Euro held primarily in the UK. Production revenues from the sale of hydrocarbons are received in the local currency in Ukraine, however, the hydrocarbon prices are linked to the USD denominated gas and oil prices. The martial law in Ukraine forbids the transfer of cash outside of Ukraine.

The cash held in the Country must be held in the local currency (Hryvnia).

## Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Interim Financial Statements. For further details, refer to the detailed presentation of the assumptions outlined in note 2(a) of the Interim Financial Statements.

## Cautionary Statement

The business review and certain other sections of this Half Yearly Report contain forward looking statements that have been made by the Directors in good faith based on the information available to them up to the time of their approval of this report. However they should be treated with caution due to inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information and no statement should be construed as a profit forecast.

## Risk and Uncertainties

There are a number of potential risks and uncertainties inherent in the oil and gas sector which could have a material impact on the long-term performance of the Group and which could cause the actual results to differ materially from expected and historical results. The Company has taken reasonable steps to mitigate these where possible. Full details are disclosed on pages 10 to 13 of the 2022 Annual Financial Report. There have been no changes to the risk profile during the first half of the year. The risks and uncertainties are summarised below.

### War risk

### Operational risks

- Health, safety, and environment
- COVID-19
- Climate change
- Drilling and work-over operations
- Production and maintenance

### Subsurface risks

### Financial risks

- Changes in economic environment
- Counterparty
- Default on the Proger loan repayment
- Commodity price

### Country risk

- Regulatory and licence issues
- Emerging market

### Other risks

- Risk of losing key staff members

- Risk of entry into new countries
- Risk of delays in projects related to dialogue with local communities

### Director's Responsibility Statement

We confirm that to the best of our knowledge:

- (a) the Interim Financial Statements have been prepared in accordance with the UK-adopted IAS 34 '*Interim Financial Reporting*';
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year);
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein); and
- (d) the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R.

This Half Yearly Report consisting of pages 1 to 21 has been approved by the Board and signed on its behalf by:

**Fady Khallouf**

Chief Executive Officer

8 September 2023

### Consolidated Income Statement

Six months ended 30 June 2023

	Six months ended 30 June		Year ended
			31 December
	2023	2022	2022
	\$'000	\$'000	\$'000
	(Unaudited)	(Unaudited)	(Audited)



**Notes**

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**CONTINUING OPERATIONS**

Revenue	3	2,414	4,635	8,472
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Cost of sales	3	(2,099)	(3,142)	(5,553)
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<b>Gross profit</b>		<b>315</b>	<b>1,493</b>	<b>2,919</b>
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Administrative expenses		(1,550)	(1,587)	(3,441)
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Reversal of impairment of other assets		-	-	20
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Impairment of gas and oil assets		(70)	-	(269)
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Change in provision for loan provided		-	(600)	-
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Impairment of other assets	-	-	(27)
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Net foreign exchange gains/(losses)	290	(1,633)	(1.131)
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Other operating income/(losses),net	63	(26)	(3)
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<b>Operating (loss)/profit</b>	<b>(952)</b>	<b>(2,353)</b>	<b>(1.932)</b>
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Finance income	4	779	607	372
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<b>(Loss)/profit before tax</b>	<b>(173)</b>	<b>(1,746)</b>	<b>(1.560)</b>
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Tax (expense)/benefit	-	-	-
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<b>(Loss)/profit for the period/year</b>	<b>(173)</b>	<b>(1,746)</b>	<b>(1.560)</b>
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Attributable to:

Owners of the Company	5	172	(1,747)	(1.562)
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Non-controlling interest		(1)	1	(2)
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		(173)	(1,746)	(1.560)
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<b>(Loss)/profit per Ordinary share</b>		<b>Cents</b>	<b>Cents</b>	<b>Cents</b>
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Basic and diluted	5	(0.1)	(0.7)	(0.6)
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**Consolidated Statement of Comprehensive Income**

**Six months ended 30 June 2023**

<b>Six months ended 30 June</b>	<b>Year ended</b>
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31  
December

2023                      2022                      2022

\$'000                      \$'000                      \$'000

(Unaudited)              (Unaudited)              (Audited)

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(Loss)/profit for the period/year                      (173)                      (1,746)                      (1,560)

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**Other comprehensive profit/(loss)**

Items that may be reclassified subsequently to profit  
or loss

Unrealised currency translation differences                      41                      (986)                      (3,287)

**Other comprehensive profit/(loss)**                      **41**                      **(986)**                      **(3,287)**

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**Total comprehensive (loss)/profit for the  
period/year**                      **(132)**                      **(2,732)**                      **(4,847)**

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Attributable to:

Owners of the Company (131) (2,733) (4,849)

Non-controlling interest (1) 1 (2)

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(132) (2,732) (4,847)

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**Consolidated Statement of Financial Position**

**Six months ended 30 June 2023**

**Six months ended 30 June**      **Year ended**

**31  
December**

**2023**      **2022**      **2022**

**\$'000**      **\$'000**      **\$'000**

(Unaudited) (Unaudited) (Audited)

Notes

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**ASSETS**

**Non-current assets**

Intangible exploration and evaluation assets		-	-	-
Property, plant and equipment	6	6,407	8,616	6,633
Right-of-use assets		61	139	108
Deferred tax asset		318	409	319
		<b>6,786</b>	<b>9,164</b>	<b>7,060</b>

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**Current assets**

Inventories	7	141	165	295
Trade and other receivables	8	233	373	318
Loan provided	11	16,441	15,327	15,825
Cash and cash equivalents		14,195	14,518	13,934
		<b>31,010</b>	<b>30,383</b>	<b>30,372</b>
<b>Total assets</b>		<b>37,796</b>	<b>39,547</b>	<b>37,432</b>

## LIABILITIES

### Non-current liabilities

Long-term lease liability	-		(59)	(28)
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Provisions		(286)	(380)	(261)
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		(286)	(439)	(289)
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**Current liabilities**

Trade and other payables	9	(1,938)	(1,352)	(1,401)
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Short-term lease liability		(65)	(114)	(79)
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Current provisions		(135)		(136)
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		(2,138)	(1,466)	(1,616)
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<b>Total liabilities</b>		<b>(2,424)</b>	<b>(1,905)</b>	<b>(1,905)</b>
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<b>Net assets</b>		<b>35,372</b>	<b>37,642</b>	<b>35,527</b>
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**EQUITY**

Share capital	12	13,832	13,832	13,832
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Share premium		514	514	514
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Retained earnings		184,372	184,146	184,331
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Cumulative translation reserves		(164,935)	(162,675)	(164,976)
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Other reserves		1,589	1,589	1,589
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<b>Equity attributable to equity holders of the parent</b>		<b>35,372</b>	<b>37,406</b>	<b>35,290</b>
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Non-controlling interest		-	236	237
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<b>Total equity</b>		<b>35,372</b>	<b>37,642</b>	<b>35,527</b>
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**Consolidated Statement of Cash Flows**

**Six months ended 30 June 2023**

	<b>Six months ended 30 June</b>	<b>Year ended</b>	
			<b>31 December</b>
	<b>2023</b>	<b>2022</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Operating loss</b>	<b>(952)</b>	<b>(2,353)</b>	<b>(1,932)</b>
Adjustments for:			
Depreciation of property, plant and equipment	286	434	764

Impairment of inventories	-	-	(20)
Change in provision for loan provided	-	600	-
Impairment/(Reversal of impairment) of VAT recoverable	-	-	11
Impairment of oil and gas assets	70	-	269
Impairment of receivables	-	-	16
Effect of foreign exchange rate changes	(290)	1,633	1,131
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<b>Operating cash flows before movements in working capital</b>	<b>(886)</b>	<b>314</b>	<b>239</b>
Decrease/(Increase) in inventories	153	(1)	(155)
Decrease /(Increase) in receivables	145	(166)	(946)
Increase/(Decrease) in payables and provisions	496	(176)	(197)
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<b>Cash from operations</b>	<b>(92)</b>	<b>(29)</b>	<b>(1,059)</b>
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Interest received	199	28	185
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<b>Net cash inflow/(outflow) from operating activities</b>	<b>107</b>	<b>(1)</b>	<b>(874)</b>
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#### **Investing activities**

Purchases of property, plant and equipment	(33)	(75)	(93)
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Purchase of shares in subsidiaries from minority shareholders	(24)	-	-
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Interest received	176	-	97
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<b>Net cash used in investing activities</b>	<b>119</b>	<b>(75)</b>	<b>4</b>
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**Financing activities**

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<b>Net cash from financing activities</b>	-	-	-
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<b>Net increase (decrease) in cash and cash equivalents</b>	<b>226</b>	<b>(76)</b>	<b>(870)</b>
Effect of foreign exchange rate changes	35	(417)	(207)
Cash and cash equivalents at beginning of period/year	13,934	15,011	15,011

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<b>Cash and cash equivalents at end of period/year</b>	<b>14,195</b>	<b>14,518</b>	<b>13,934</b>
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**Consolidated Statement of Changes in Equity**

Six months ended 30 June 2023

Share capital	Share premium account	Retained earnings	Cumulative translation reserves	Other reserves	Equity attributable to owners of the Company	Non-controlling interest	Total
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	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 1 January 2022</b>	<b>13,832</b>	<b>514</b>	<b>185,893</b>	<b>(161,689)</b>	<b>1,589</b>	<b>40,139</b>	<b>235</b>	<b>40,374</b>
Net loss for the period	-	-	(1,747)	-	-	(1,747)	1	(1,746)
Other comprehensive loss	-	-	-	(986)	-	(986)	-	(986)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(1,747)</b>	<b>(986)</b>	<b>-</b>	<b>(2,733)</b>	<b>1</b>	<b>(2,732)</b>
<b>As at 30 June 2022</b>	<b>13,832</b>	<b>514</b>	<b>184,146</b>	<b>(162,675)</b>	<b>1,589</b>	<b>37,406</b>	<b>236</b>	<b>37,642</b>
Net profit for the period	-	-	185	-	-	185	1	186
Other comprehensive loss	-	-	-	(2,301)	-	(2,301)	-	(2,301)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>185</b>	<b>(2,301)</b>	<b>-</b>	<b>(2,116)</b>	<b>1</b>	<b>(2,115)</b>

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<b>As at 31 December 2022</b>	<b>13,832</b>	<b>514</b>	<b>184,331</b>	<b>(164,976)</b>	<b>1,589</b>	<b>35,290</b>	<b>237</b>	<b>35,527</b>
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Net loss for the period	-	-	(172)	-	-	(172)	(1)	(173)
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Other comprehensive profit	-	-	-	41	-	41	-	41
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<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(172)</b>	<b>41</b>	<b>-</b>	<b>(131)</b>	<b>(1)</b>	<b>(132)</b>
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Acquisition of non-controlling interests			213			213	(236)	(23)
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<b>As at 30 June 2023</b>	<b>13,832</b>	<b>514</b>	<b>184,372</b>	<b>(164,935)</b>	<b>1,589</b>	<b>35,372</b>	<b>-</b>	<b>35,372</b>
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## Notes to the Condensed Financial Statements

### Six months ended 30 June 2023

#### 1. General information

Cadogan Energy Solutions plc (the 'Company', together with its subsidiaries the 'Group'), is incorporated in England and Wales under the Companies Act. The address of the registered office is 6th Floor, 60 Gracechurch Street, London EC3V 0HR. The nature of the Group's operations and its principal activities are set out in the Operations Review on pages 7 to 8 and the Financial Review on pages 8 to 9.

This Half Yearly Report has not been audited or reviewed in accordance with the Auditing Practices Board guidance on 'Review of Interim Financial Information'.

A copy of this Half Yearly Report has been published and may be found on the Company's website at <https://www.cadoganenergysolutions.com>.

## 2. Basis of preparation

The annual financial statements of the Group are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted international accounting standards in its consolidated financial statements on 1 January 2021. There was no impact or changes in accounting policies from the transition. These Condensed Financial Statements have been prepared in accordance with the UK-adopted IAS 34 *Interim Financial Reporting*.

The same accounting policies and methods of computation are followed in the condensed financial statements as were followed in the most recent annual financial statements of the Group except as noted, which were included in the Annual Report issued on 27 April 2023.

The Group has not early adopted any amendment, standard or interpretation that has been issued but is not yet effective. It is expected that where applicable, these standards and amendments will be adopted on each respective effective date.

This consolidated interim financial information does not constitute accounts within the meaning of section 434 and of the Companies Act 2006. Statutory accounts for the year ended 31 December 2022 were approved by the Board of Directors on 27 April 2023 and delivered to the Registrar of Companies. The report of the auditors on those accounts was qualified as the auditors were unable to obtain sufficient and appropriate evidence to conclude as to whether the fair value of the Proger loan of \$15.8 million was materially accurate.

### (a) Going concern

The Directors have continued to use the going concern basis in preparing these condensed financial statements. The Group's business activities, together with the factors likely to affect future development, performance and position are set out in the Operations Review. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review.

The Group's cash balance at 30 June 2023 was \$14.2 million (31 December 2022: \$13.9 million).

The Directors' have carried out a robust assessment of the principal risks facing the Group.

The Group's forecasts and projections, taking into account reasonably possible changes in trading activities, operational performance, flow rates for commercial production and the price of hydrocarbons sold to Ukrainian customers, show that there are reasonable expectations that the Group will be able to operate on funds currently held and those generated internally, for the foreseeable future.

Notwithstanding the Group's current financial performance and position, the Board are cognisant of the actual impacts of the war situation in Ukraine. The Board has considered possible reverse stress case scenarios for the impact on the Group's operations, financial position and forecasts. Whilst the potential future impacts of the invasion of Ukraine by Russia are unknown, the Board has considered operational disruption that may be caused by the factors such as a) restrictions applied by governments, illness amongst our workforce and disruption to supply chain and sales channels; b) market volatility in respect of commodity prices associated with military and geopolitical factors.

In addition to sensitivities that reflect future expectations regarding country, commodity price and currency risks that the Group may encounter reverse stress tests have been run to reflect possible negative effects of war in Ukraine. The Group's forecasts demonstrate that owing to its cash resources the Group is able to meet its operating cash flow requirements and commitments whilst maintaining significant liquidity for a period of at least the next 12 months allowing for sustained reductions in commodity prices and extended and severe disruption to operations should such a scenario occur.

After making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and consider the going concern basis of accounting to be appropriate and, thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### (b) Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). The functional currency of the Company is US dollar. For the purpose of the consolidated financial statements, the results and financial position of each Group



company are expressed in US dollars, which is the presentation currency for the consolidated financial statements.

The relevant exchange rates used were as follows:

<b>1 £ = xUS\$</b>	<b>Six months ended 30 June</b>		<b>Year ended</b>
	<b>2023</b>	<b>2022</b>	<b>31 Dec 2022</b>
Closing rate	1.2663	1.2160	1.0817
Average rate	1.2336	1.2877	1.2372

  

<b>1 US\$ = xUAH</b>	<b>Six months ended 30 June</b>		<b>Year ended</b>
	<b>2023</b>	<b>2022</b>	<b>31 Dec 2022</b>
Closing rate	37.2401	29.87219	37.0663
Average rate	37.1364	29.45866	32.45697

1 Euro = xUS\$

Six months ended 30 June    Year ended

	2023	2022	31 Dec 2022
Closing rate	1.0886	1.0451	1.0709
Average rate	1.0809	1.0857	1.0539

**(c) Dividend**

The Directors do not recommend the payment of a dividend for the period (30 June 2023: \$nil; 31 December 2022: \$nil).

**(d) Critical accounting judgments and estimates**

**Impairment indicator assessment for E&E assets**

Where there are indications of impairment, the E&E assets concerned are tested for impairment. Where the E&E assets concerned fall within the scope of an established full cost pool, which are not larger than an operating segment, they are tested for impairment together with all development and production assets associated with that cost pool, as a single cash generating unit.

The aggregate carrying value of the relevant assets is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves from that pool. Where the assets fall into an area that does not have an established pool or if there are no producing assets to cover the unsuccessful exploration and evaluation costs, those assets would fail the impairment test and be written off to the income statement in full.

Impairment losses are recognized in the income statement and are separately disclosed.

### **Impairment of PP&E**

Management assesses the development and production assets for impairment indicators and performs an impairment test if indicators of impairment are identified. Management performed an impairment assessment using a value in use discounted cash flow model which required estimates including forecast oil prices, reserves and production, costs and discount rates.

### **Recoverability and measurement of VAT**

Judgment is required in assessing the recoverability of VAT assets and the extent to which historical impairment provisions remain appropriate, particularly noting the recent recoveries against historically impaired VAT. In forming this assessment, the Group consider the nature and age of the VAT, the likelihood of eligible future supplies to VAT, the pattern of recoveries and risks and uncertainties associated with the operating environment.

### **Loan provided**

In February 2019, the Group advanced a Euro 13,385,000 loan to Proger Managers & Partners Srl ("PMP"), a privately owned Italian company whose only interest is a 72.92% participation in Proger Ingegneria Srl ("Proger Ingegneria"), a privately owned company which held a 75.95% participating interest in Proger Spa ("Proger") at 31 December 2020. The loan carries an entitlement to interest at a rate of 5.5% per year, payable at maturity (which is 24 months after the execution date (February 2019) and assuming that the call option described below is not exercised). The principal of the loan is secured by a pledge over PMP's current participating interest in Proger Ingegneria Srl, up to a maximum guaranteed amount of Euro 13,385,000.

Through the Call Option Agreement, the Group was granted a call option to acquire, at its sole discretion, 33% of participating interest in Proger Ingegneria; the exercise of the option would have given Cadogan, through CPHBV, an indirect 25% interest in Proger at 31 December 2020. The call option was granted at no additional cost and could be exercised at any time between the 6th (sixth) and 24th (twenty-fourth) months following the execution date of the loan agreement and subject to Cadogan shareholders having approved the exercise of the call option as explained further below. Should CPHBV exercise the call option, the price for the purchase of the 33% participating interest in Proger Ingegneria shall be paid by setting off the corresponding amount due by PMP to CPHBV, by way of reimbursement of the principal, pursuant to the Loan Agreement. If the Call Option is exercised, then the obligation on PMP to pay interest is extinguished.

Management considered the extent to which the Option and rights to representation on the Board of Proger Ingegneria and Proger meant significant influence existed. The requirement to obtain shareholders' approval for any exercise of the option was considered to represent a substantive condition such that the option was not 'currently exercisable' under IFRS at 31 December 2020. In consequence, the potential voting rights associated with any subsequent exercise of the Option were not considered to contribute to significant influence over the investee.

In 2019 and 2020, under the Group's accounting policies, the instrument was held at fair value through profit and loss and determination of fair value required assessment of both key investee specific information regarding financial performance and prospects and market information. The determination of fair value was made at 31 December 2020 based on facts and circumstances at that date, notwithstanding that the borrower failed to repay the loan at maturity in 2021.

The Group's original investment decision involved assessment of Proger Spa business plans and analysis with professional advisers including valuations performed using the income method (discounted cash flows) and market approach using both the precedent transactions and trading multiples methods.

Unfortunately, Proger refused to provide Cadogan information regarding its 2020 financial performance or updated forecasts to undertake a detailed fair value assessment using the income method or market approach at 31 December 2020. As a consequence, management assessed the fair value of the instrument based on the terms of the agreement, including the pledge over shares, together with financial information in respect of prior periods and determined that \$16.8 million represented the best estimate of fair value, being equal to anticipated receipts and timing thereof discounted at an estimated market rate of interest of 7.8%. In forming its assessment at 31 December 2020, management particularly considered the impact of any claim under the pledge and further litigation options on the underlying investee business and shareholders and resulting incentive that created for the borrower to ultimately meet the contractual payment obligation. Management further considered information relevant to Proger business and PMP's ability to pay, noting the absence of 2020 financial information. However, the absence of information regarding Proger's 2020 financial performance and prospects represented a significant limitation on the fair value exercise and, as a result, if received, the fair value could be materially higher or lower than this value.

Since the Call Option was not exercised before the Maturity Date and the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Loan provided was reclassified from 'Financial assets at fair value through profit and loss' to 'Financial assets at amortized cost' at the value carried at the Company balance at the date of the Call Option expiry (Note 11).

End of March 2021, PMP requested an arbitration to have the Loan Agreement recognised as an equity investment contract.

In August 2022, Cadogan was informed of the award in the arbitration proceeding which:

- rejected Proger's principal claim and declared that the Loan Agreement is valid and effective,

- deemed to qualify the Call Option as a preliminary contract under condition, but
- rejected Proger's claim ex art.2932 Italian Civil Code, stating that it is impossible to give an award producing the same effects of a final contract ex art.2932 Italian Civil Code,
- this because of the duties established by the rules of the London Regulatory Authority and because of the need, possibly by both parties, to comply with the due proceedings before the formalization of the entry of Cadogan into the capital of Proger Ingegneria,
- subordinated the stipulation of the final contract to the precedent completion of the proceeding and bureaucratic process as per the British rules, stating that, otherwise,
- there is the obligation on Proger Ingegneria to return the payment received under the Loan Agreement,
- compensated all the expenses of the proceeding.

Proger refused to apply the requirements of the award and thus, Proger must reimburse the amount covered by the Loan Agreement plus interest accrued in the meantime. Cadogan is taking the necessary legal actions to recover these amounts.

In forming its assessment at 30 June 2023, management considered the arbitration award and the impact of an additional delay in the reimbursement of the Proger Loan.

### 3. Segment information

Segment information is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal assessment provided to the Group's chief operating decision maker ("CODM"). The Group has identified its executive management team as its CODM and the internal assessment used by the top management team to oversee operations and make decisions on allocating resources serve as the basis of information presented.

Segment information is analysed on the basis of the type of activity, products sold, or services provided. The majority of the Group's operations are located within Ukraine. Segment information is analysed on the basis of the types of goods supplied by the Group's operating divisions.

The Group's reportable segments under IFRS 8 are therefore as follows:

#### *Exploration and Production*

- E&P activities on the production licences for natural gas, oil and condensate

#### *Service*

- Drilling services to exploration and production companies
- Construction services to exploration and production companies

#### *Trading*

- Import of natural gas from European countries
- Local purchase and sales of natural gas operations with physical delivery of natural gas

The accounting policies of the reportable segments are the same as the Group's accounting policies. Sales between segments are carried out at market prices. The segment result represents profit under IFRS before unallocated corporate expenses. Unallocated corporate expenses include management and Board remuneration and expenses incurred in respect of the maintenance of Kiev office premises. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

The Group does not present information on segment assets and liabilities as the CODM does not review such information for decision-making purposes.

As at 30 June 2023 and for the six months then ended the Group's segmental information was as follows:

	Exploration and Production	Trading	Consolidated
	\$'000	\$'000	\$'000
Sales of hydrocarbons	2,410	-	2,410
Other revenue	4	-	4
Sales between segments	-	-	-
<b>Total revenue</b>	<b>2,414</b>	<b>-</b>	<b>2,414</b>
Other cost of sales	(2,097)	(2)	(2,099)
Other administrative expenses	(204)	(22)	(226)
Impairment of oil & gas	(70)		(70)
Other operating costs	63	-	63

Finance income/costs, net	199		199
<hr/>			
<b>Segment results</b>	<b>305</b>	<b>(24)</b>	<b>281</b>
<hr/>			
Unallocated other administrative expenses			(1,324)
Other finance income, net			580
Net foreign exchange gains			290
<hr/>			
<b>Loss before tax</b>			<b>(173)</b>
<hr/>			

As at 30 June 2022 and for the six months then ended the Group's segmental information was as follows:

	<b>Exploration and Production</b>	<b>Trading</b>	<b>Consolidated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<hr/>			
Sales of hydrocarbons	4,632	-	4,632

Other revenue	3	-	3
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<b>Total revenue</b>	<b>4,635</b>		<b>4,635</b>
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Other cost of sales	(3,142)	-	(3,142)
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Other administrative expenses	(226)	(28)	(254)
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Other operating costs	(26)	-	(26)
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Finance income/costs, net	-	28	28
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<b>Segment results</b>	<b>1,241</b>	-	<b>1,241</b>
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Unallocated other administrative expenses			(1,333)
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Net foreign exchange gains			(1,633)
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Other income/loss, net			(21)
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Loss before tax			(1,746)
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4. Finance income/(costs), net

	Year ended		
	Six months ended 30 June		31
	2023	2022	December

	2023	2022	2022
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	\$'000	\$'000	\$'000
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Interest expense on lease	(5)	(9)	(18)
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<b>Total interest expenses on financial liabilities</b>	<b>(5)</b>	<b>(9)</b>	<b>(18)</b>
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Interest income on cash deposit	375	28	282
Change in provision	-	-	93
<b>Total interest income on financial assets</b>	<b>375</b>	<b>28</b>	<b>375</b>
Interest on loan	354	614	38
Unwinding of discount on decommissioning provision	55	(26)	(23)
	<b>779</b>	<b>607</b>	<b>372</b>

##### 5. (Loss)/profit per ordinary share

(Loss)/profit per ordinary share is calculated by dividing the net (loss)/profit for the period/year attributable to Ordinary equity holders of the parent by the weighted average number of Ordinary shares outstanding during the period/year. The calculation of the basic (loss)/profit per share is based on the following data:

	Year ended		
	Six months ended 30		
	June	31 December	
<b>(Loss)/profit attributable to owners of the Company</b>	<b>2023</b>	<b>2022</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
(Loss)/profit for the purposes of basic (loss)/profit per share being net (loss)/profit attributable to owners of the Company	(172)	(1,746)	(1,562)
	<b>Number</b>	<b>Number</b>	<b>Number</b>
<b>Number of shares</b>	<b>`000</b>	<b>`000</b>	<b>`000</b>
Weighted average number of Ordinary shares for the purposes of basic (loss)/profit per share	244,128	244,128	244,128

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**(Loss)/profit per Ordinary share**

Basic (0.1) (0.7) (0.6)

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**6. Proved properties**

As of 31 June 2023, the development and production assets balance which forms part of PP&E has decreased in comparison to 31 December 2022 by 3%, mainly due to depletion charge for the period.

**7. Inventories**

As of 30 June 2023 inventories decreased of \$154 thousand (30 June 2023: \$141 thousand, 31 December 2022: \$295 thousand) mainly due to volume of crude oil at the end of the month..

The impairment provision as at 30 June 2023 of \$1 million is held to reduce the carrying value of the inventories to net realizable value. No additional provision on inventories has been recognised for the first half 2023.

**8. Trade and other receivables**

Six months ended 30 Year ended  
June

31  
December

2023 2022 2022

\$'000 \$'000 \$'000

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VAT recoverable 112 135 77

Prepayments	62	66	60
Other receivables	59	172	181
	<b>233</b>	<b>373</b>	<b>318</b>

VAT recoverable asset was realized through natural gas and crude oil sales during the first half of 2023. The Directors consider that the carrying amount of the other receivables approximates their fair value. Management expects to realise VAT recoverable through the activities of the business segments.

#### 9. Trade and other payables

The \$1.9 million of trade and other payables as at 30 June 2023 (30 June 2022: \$1.3 million, 31 December 2022: \$1.4 million) represent \$1.5 million (30 June 2022: \$0.9 million, 31 December 2022: \$0.8 million) of other creditors and \$0.4 million of accruals (30 June 2022: \$0.4 million, 31 December 2022: \$0.6 million).

#### 10. Commitments and contingencies

There have been no significant changes to the commitments and contingencies reported on page 80 of the Annual Report.

#### 11. Loan provided

In February 2019, Cadogan used part of its cash (Euro 13.385 million) to enter into a 2-year Loan Agreement with Proger Managers & Partners, with an option to convert it into a direct 33% equity interest in Proger Ingegneria, equivalent to an indirect 25 % equity interest in Proger. According to IFRS, the instrument has to be represented in our balance sheet at fair value.

In February 2021, Cadogan notified PMP that according to the Loan Agreement, the Maturity Date occurred on 25 February 2021. As the Call Option was not exercised, PMP must fulfil the payment of EUR 14,857,350, being the reimbursement of the Loan in terms of principal and the accumulated interest. PMP is in default since 25 February 2021. In case of default payment, the terms of the agreement provide for the application of an increased interest rate on the amount of the debt.

Since the Call Option was not exercised before the Maturity Date and the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Loan provided was reclassified from 'Financial assets at fair value through profit and loss' to 'Financial assets at amortized cost'.

**Financial assets  
at amortised cost**

\$'000

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**As at 1 January 2022** 16,724

Interest 614

Change in provision (600)

Exchange differences (1,411)

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**As at 30 June 2022** 15,327

Interest 724

Change in provision (700)

Exchange differences 474

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**As at 1 January 2023** 15,825

Interest	704
Change in provision	(350)
Exchange differences	262
<b>As at 30 June 2023</b>	<b>16,441</b>

To represent the option at fair value, the Group has applied a level 3 valuation under IFRS as inputs to the valuation have included assessment of the cash repayments anticipated under the loan terms at maturity, delayed by the arbitration process requested by PMP (the Borrower), historical financial information for the periods prior to 2020 and assessment of the security provided by the pledge over shares together with the impact of the Covid-19 on the activity of Proger. As a result, \$ 16.8 million was determined as the best estimate of fair value as at 31 December 2020, being equal to anticipated receipts and timing thereof discounted at an estimated market rate of interest of 7.8%.

Proger Managers & Partners srl has failed to reimburse the Loan with the accumulated interests in full at the Maturity Date, 25 February 2021. In case of non-reimbursement, the Loan carries an entitlement to an interest at a rate of 7.5% per year to be accrued on principle amount and accumulated interests at the Maturity Date until the total amount is paid. Starting from March 2021, Cadogan treats the Loan provided to PMP at historical cost plus accrued interests and less provision. In August 2022, the Company was informed of the award of the arbitral proceeding which:

- rejected Proger's principal claim and declared that the Loan Agreement is valid and effective,
- deemed to qualify the Call Option as a preliminary contract under condition, but
- rejected Proger's claim ex art.2932 Italian Civil Code, stating that it is impossible to give an award producing the same effects of a final contract ex art.2932 Italian Civil Code,
- this because of the duties established by the rules of the London Regulatory Authority and because of the need, possibly by both parties, to comply with the due proceedings before the formalization of the entry of Cadogan into the capital of Proger Ingegneria,
- subordinated the stipulation of the final contract to the precedent completion of the proceeding and bureaucratic process as per the British rules, stating that, otherwise,
- there is the obligation on Proger Ingegneria to return the payment received under the Loan Agreement,
- compensated all the expenses of the proceeding.

Proger refused to apply the requirements of the award and thus, Proger must reimburse the amount covered by the Loan Agreement plus interest accrued in the meantime. Cadogan is taking the necessary legal actions to recover these amounts.

The recoverability of the Loan had been assessed in April 2023 for the purpose of Cadogan Annual Report 2022.

Due to expected delay in the loan reimbursement, the Company recognized additional provision of \$350 thousand.

## 12. Share capital

### Authorized and issued equity share capital

	30/06/2023		31/12/2022	
	Number	\$'000	Number	\$'000
<b>Authorized</b>				
Ordinary shares of £0.03 each	1,000,000	57,713	1,000,000	57,713
<b>Issued</b>				
Ordinary shares of £0.03 each	244,128	13,832	244,128	13,832

Authorized but unissued share capital of £30 million has been translated into US dollars at the historic exchange rate of the issued share capital. The Company has one class of Ordinary shares, which carry no right to fixed income.

### Issued equity share capital

Ordinary shares

of £0.03

<b>At 31 December 2020</b>	<b>244,128,487</b>
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Issued during year	-
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<b>At 31 December 2021</b>	<b>244,128,487</b>
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Issued during year	-
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<b>At 31 December 2022</b>	<b>244,128,487</b>
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Issued during first-half year	-
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<b>At 30 June 2023</b>	<b>244,128,487</b>
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### **13. Events subsequent to the reporting date**

In July, a trading activity was conducted by the Ukrainian subsidiary (Astroinvest-Energy LLC).

In August 2023, the Group has started the process of reorganisation of subsidiaries in Ukraine.

Furthermore, the Group is studying a gas-to-power solution for the optimization of the use of the produced gas in its oil production operations.

[1] Lost Time Incident, Total Recordable Incident

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