Cabot Energy Plc
Interim Report and Accounts 2018

Cabot Energy Plc

Production led growth

Cabot Energy is an oil and gas exploration and production company quoted on the Alternative Investment Market of the London Stock Exchange. The Group is focused on production led growth which will deliver cash flow and demonstrable value for shareholders in a reasonable timeframe.

In conjunction with this production activity, Cabot Energy continues to mature exploration and appraisal projects which can be farmed out and drilled to generate the possibility of high returns on investment.

Cabot Energy's key assets are in Canada, an onshore light oil production project with significant growth potential, and in Italy, with both onshore and offshore permits and applications containing exploration prospects and oil and gas discoveries that require appraisal.

Interim Highlights

Financial Highlights

- Revenue increased to $7.5 million (H1 2017: $1.8 million)
- Gross profit increased to $0.8 million (H1 2017: $0.3 million gross loss)
- EBITDA of $1.4 million (H1 2017: $0.8 million loss) stated before net exceptional costs of $3.6 million (H1 2017: $1.6 million exceptional gain)
- Net loss of $4.2 million (H1 2017: $0.8 million net profit) including net exceptional costs of $3.6 million
- Group cash balance as at 30 June 2018 of $6.2 million (31 December 2017: $1.8 million)

Operational Highlights

- Appointment of new executive management team in June 2018
- Bought out minority interest to take 100% control and benefit of Canadian asset ownership in January 2018
- Crude sales increased to an average of 767 barrels of oil per day ("bopd") for the Period (H1 2017: 233 bopd)
- Production rates for the 6 new horizontal well portfolio consistent with expected performance

Post Period Highlights

- Strategic, operational and financial review conducted by new executive management team
- Farm-out negotiations commenced over Adriatic and Sicily Channel prospects

Interim Report Management Statement

The operational and financial review concluded that the fundamentals of the underlying portfolio of assets remained highly attractive but that a more robust approach was required to be taken in the areas of operational planning, reporting and cost controls to eliminate budget over-runs, which are further detailed in the financial review.

The new management team has identified key areas that needed to be improved and has implemented significant changes. The management team has:

- Implemented better defined and managed work streams in subsurface and operational planning
- Initiated a forensic assessment of the Group's balance sheet and reservoir performance
- Improved the financial controls and reporting processes
- Increased focus on the integration, co-ordination and communication between technical, and management teams in different geographies

Canada Operations

Oil production during the Period averaged 761 bopd, an increase of over 100% on the same period in 2017 (359 bopd).

		100/16-05-112-05W6/02	102/10-32-111-05W6/03	100/06-08-112-05W6/02	100/10-06-112-05W6/03	100/15-31-111-05W6/02	100/03-07-112-05W6/02	Average
IP30	bopd	112	100	131	108	36	125	102
First Month of Production		Oct-17	Jan-18	Feb-18	Mar-18	Mar-18	Apr-18	
Months Online		12	9	8	7	7	6	8
August Production	bopd	44	20	97	57	30	48	49

The variability observed in of the first 6 horizontal wells drilled in Keg River carbonate reefs is consistent with pre-drill expectations, and the overall average performance is in line with the type curves developed for the area. However, a basin-wide development process is now being undertaken targeting the creation of up to 100 well inventory of potential targets from the existing land position from which future well locations will be high-graded, with designs optimised around subsurface risk, drilling complexity and royalty burden.

The new management team recognises subsurface analysis and planning as a being a core strength area going forward, which will receive appropriate human and financial resource investment. Workflows and management of deliverables have been an area of focus with Campbell Airlie, Chief Technical Officer and the subsurface team leader appointed in the Period. Gating and peer review processes have been enabled with external geological play expert resources. Software tools have been upgraded at zero net cost increase. Previous budgets included purchasing of the 3-D seismic for Canada well location, however this was not implemented. The purchase of this critical 3-D seismic has now commenced on an affordability basis.

By the end of Q1 the Company had completed its Internal Line Inspections of key in-field pipelines connected to the 13-36 and 09-25 Batteries. The results of the inspection were generally positive with only one section of pipeline requiring precautionary repairs. This work has given the Company important data on pipeline integrity and provides valuable baseline data on the condition of this important infrastructure.

As part of the Group's strategic, operational and financial review, management undertook a comprehensive cost analysis of its Canadian operations and moved to a zero-based budgeting structure for new operating and capital expenditures. This analysis identified a significant operating and capital expenditure over-run in comparison with the approved budget, and poor planning for the subsequent work programmes. The Summer Work Programme was therefore restricted to only essential expenditure necessary to maintain production at existing levels and on non-discretionary safety or environmentally related activities.

Production in July and August averaged 727 bopd, slightly lower than the H1 average mainly due to early trucking bans coming into effect during the second half of August after an unseasonably wet month.

The Company has commissioned a third party to conduct an independent facilities capacity review for all its main batteries in the Rainbow area. This review will both confirm the available spare capacity for each of the batteries and identify any opportunities for increasing the capacity of the plants to ensure long term growth opportunities can be delivered as expected and without delay.

Project costs for the forthcoming winter work programme have been extensively reviewed and re-forecast. A new purchase-to-pay management system and supply chain manager has been introduced to both secure beneficial supply chain terms and cost savings, and to better manage expenditure commitments and reporting across all areas of the business.

Looking forward, the Company will be targeting a new horizontal well drilling and workover programme from Q1 2019, subject to financing.

The Company has commissioned a new independent Competent Person's Reserve Report which will be published during October.

Italy

Reflecting the importance of the Italian portfolio upside to shareholders, the Board strengthened the Company's operations with a newly created position of Business Development Director, appointing Hugo d'Apice. Mr. d'Apice will focus on advancing the Company's Italian portfolio opportunities. The Company is pleased to announce that it is in discussions with a private exploration company regarding a farm-in proposal in respect of the Adriatic and Sicily Channel assets and will keep shareholders updated of further progress.

Interim Report Management Statement Continued

Civita: The Falkland Islands Government has signed the release of the Rockhopper Civita assets for transfer to Cabot. Engagement continues with the Italian Ministry of Economic Development ahead of the 1 December 2018 transaction long stop date. The Aglavizza pipeline has now been repaired and returned to previous daily production rates following 6 months of lost production. The economic benefit for production has been accrued to Cabot since 1 January 2017 as part of the working capital balance which will be paid to Cabot upon deal completion in addition to the closing payment of $1.6 million.

Adriatic: The Environmental Impact Assessment (EIA) approval has been received to conduct a 3-D seismic programme over the license areas. A positive opinion has been received on the pre-seismic ante-operum work subsequently undertaken. One data recorder remains to be recovered. Failure to do so may require the repeat collection of some data but will not prevent the processing of all documentation with a view to enabling a seismic programme in Q1 2019. A joint-tender process for a combined programme with an adjacent operator is being undertaken to eliminate cost overlap with tender results anticipated during October 2018.

Sicily Channel: The Environment Impact Assessment (EIA) and drilling permit have now been received for the Vesta oil prospect.

Po Valley Cascina Alberto: The operator, Shell Italia has made systematic planning progress engaging with over 100 local communities in advance of the 500 line-km 2-D seismic acquisition programme. Cabot Energy has a 20% carried licence interest on the €54mn seismic and exploration drilling programme.

Australia

PEL 629
The current management visited the South Australia regulator of 5,500 km^2 onshore Otway basin permit, following the encouraging discovery by Beach Energy in the adjacent licence. Management were successful in securing a 6 month suspension of the work programme period to February 2019 to allow the Company to develop a forward-looking work programme acceptable to the regulator.

Corporate

The organisational structure of the Group has been strengthened in order to generate operational efficiencies. This has focused on integrating the technical and management teams and improving communications between different geographies.

Board and management appointments:
A new executive management team was appointed on 18 June 2018 with significant prior experience of working together in operational and senior executive roles in the oil and gas industry. The Group appointed Scott Aitken as Chief Executive Officer, Petro Mychalkiw as Chief Financial Officer and Campbell Airlie as Chief Technical Officer.

The Group has appointed James Dewar as interim independent non-executive Chairman on 27 July 2018. Mr Dewar has over 35 years of experience in oil & gas as a former divisional CFO of BP plc and ex group CFO of Dana Gas PJSC. He initially chairs the Remuneration, Nominations and Audit Committees and has overseen, with Petro Mychalkiw, the review of the Company's finances and reporting processes.

Two search processes led by the interim independent non-executive Chairman, are nearing completion for the appointment of a permanent independent non-executive Chairman and an additional independent non-executive director whose appointments we hope to announce imminently. Whilst this process concludes, the Company announces that it has been agreed that the temporary suspension of some aspects of the relationship agreement dated 15 December 2017 between High Power Petroleum LLC ("H2P"), SP Angel Corporate Finance LLP ("SP Angel") and Cabot Energy as announced on 27 July 2018 has been extended for a further month.

In addition, Hugo d'Apice as (a non-Board) Business Development Director has been appointed to increase the Italian focus and strengthen government relationships. Hugo has a wealth of experience within the industry and operating in Italy and is fluent in Italian and Spanish. He has spent 15 years in the oil and gas industry in senior management positions with an emphasis on country entry, enterprise risk management and operations in complex environments. Mr. d'Apice will focus on advancing the Company's Italian portfolio opportunities, which the Board views as a key pillar of its future growth prospects.

Financial Review

The Company raised gross equity proceeds of $15.5 million ($15.3 million net of costs) in January 2018, which included a $12.0 million subscription by H2P. The Company also acquired H2P's 25% interest in the Canadian assets for share consideration and $1.75 million deferred cash consideration, resulting in H2P becoming the Company's controlling shareholder (currently holding 56.8% of the Company's issued share capital). The Canadian asset acquisition constituted a business combination in accordance with IFRS 3, Business Combinations, and has been accounted for accordingly using provisional fair values which can be finalised up to 12 months after the transaction date.

As part of its strategic review the Company has tested the completeness of the Group's liabilities as at 30 June 2018 and assessed the tangible and intangible asset carrying values for impairment risk, which resulted in a Canadian asset impairment loss of $0.6 million. The Company is also currently completing a detailed review of the Company's cash flow movements during the Period to comprehensively analyse the January fundraise use of funds, which included the partial settlement of 2017 and 2018 work programme significant budget cost overruns of approximately 40%. This work is ongoing and will be completed by the year end. Unpaid work programme creditors account for approximately 50% of the trade and other payables balance of $10.7 million as at 30 June 2018.

The Company's Board of Directors have reviewed the Group's cash flow forecasts for the period to 30 September 2019 and, whilst there is positive forecast operating cash flows from its Canada producing assets, the Group will require additional external equity funding by the end of 2018 in order to settle its creditors, fund its corporate costs and deliver Canada production growth. Whilst the Company has been successful in raising equity funding in the past and the directors are optimistic that the Company will raise additional equity funding, no new equity funding has been committed to date and it is not wholly within the Group's control. As such, this represents a material uncertainty which casts a significant doubt upon the Group's continued ability to operate as a going concern and it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Revenue of $7.5 million for the Period predominately reflects crude sales of 139,632 bbls (H1 2017: 42,450 bbls), at an average achieved price of $52.83/bbl.

Gross profit increased to $0.8 million for the Period (H1 2017: $0.3 million gross loss) due to the Company's increased ownership, increased sales volumes and improved average sales price achieved. The increase in the depletion charge from $0.4 million in H1 2017 to $2.2 million for the Period reflects the increased production from reserves and the increase in the oil and gas asset carrying values to be depleted.

The Company's net loss for the Period includes net exceptional costs of $3.6 million, composed mainly of the share-based payment expense of $0.7 million, environmental remediation costs of $1.1 million, restructuring costs of $0.9 million, business acquisition expenses of $0.1m and an impairment loss of $0.6 million.

Management have been conducting a forensic review of the balance sheet to ensure the integrity of the Group's asset carrying values, whilst also implementing best practice cost controls, financial forecasting and financial reporting systems and processes. Critically, the data collection, analysis, reporting and capital expenditure control functions have been upgraded, to provide the board and shareholders with greater confidence in the forward-looking targets.

Outlook

Cabot Energy seeks to deliver shareholder value growth through a portfolio approach to low-risk production growth and high impact exploration. Predictable production and cashflow growth is generated from the company's existing 100% owned and operated Canadian land position.

Shareholder returns potential are further amplified through creating high-impact exploration events in the company's leading licence position in Italy with 1 Bn bbls identified prospects, generated over a 10 year exploration effort. Seismic and exploration drilling funding has been secured for the Po Valley exploration licence via a farm-in from Shell Italia, whilst farm-in offers are being developed for the 100% owned and operated Adriatic and Sicily Channel oil prospects. This highly unique country-leading exploration portfolio of three multi-hundred million barrel exploration prospects offers the opportunity for further swaps to expand the number of high-impact value events for shareholders.

Average production rate for 2018 is forecast to be 711 bopd, which provides a strong foundation for a new horizontal well and workover programme in Canada in 2019, subject to raising capital.

Condensed Consolidated Statement of Profit or Loss

for the six months ended 30 June 2018

	Notes	**6 months ended 30 June 2018 (Unaudited) $'000**	6 months ended 30 June 2017 (Unaudited) $'000
Revenue		**7,491**	1,796
Production costs		**(4,510)**	(1,662)
Depletion and amortisation		**(2,152)**	(399)
Cost of sales		**(6,662)**	(2,061)
Gross profit / (loss)		**829**	(265)
Pre-licence costs		**(7)**	(12)
Administrative expenses	**2**	**(2,396)**	(931)
Other operating costs	**2**	**(1,923)**	(99)
Gain on step acquisition	**6**	**2,025**	-
Gain on bargain purchase		**-**	1,627
Loss on termination of option	**6**	**(2,178)**	-
Impairment loss	**4, 5**	**(620)**	-
(Loss) / profit from operations		**(4,270)**	320
Finance income		**29**	12
Finance costs		**(29)**	(132)
(Loss) / profit before tax		**(4,270)**	200
Tax credit		**87**	560
(Loss) / profit for the period		**(4,183)**	760
Attributable to:			
Owners of the Company		**(4,183)**	768
Non-controlling interests		**-**	(8)
		(4,183)	760
(Loss)/earnings per share			
Basic (loss)/earnings per share	**3**	**(0.7 cents)**	0.2 cents
Diluted (loss)/earnings per share	**3**	**(0.7 cents)**	0.2 cents

All results are from continuing activities.

Notes 1 to 9 form an integral part of this report.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2018

	6 months ended 30 June 2018 (Unaudited) $'000	6 months ended 30 June 2017 (Unaudited) $'000
(Loss) / profit for the period	**(4,183)**	760
Other comprehensive (loss) / profit:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(2,302)**	1,634
Other comprehensive (loss) /profit for the period (net of tax)	**(2,302)**	1,634
Total comprehensive (loss) / profit for the period	**(6,485)**	2,394
Attributable to:		
Owners of the Company	**(6,485)**	2,402
Non-controlling interests	**-**	(8)
	(6,485)	2,394

Notes 1 to 9 form an integral part of this report.

Condensed Consolidated Statement of Financial Position

at 30 June 2018

	Notes	At 30 June 2018 (Unaudited) $'000	At 31 December 2017 (Audited) $'000
Assets			
Non-current assets			
Intangible assets	**4**	**25,608**	28,470
Property, plant and equipment	**5**	**42,487**	22,252
Deferred tax asset		**3,760**	5,665
		71,855	56,387
Current assets			
Inventories		**193**	296
Trade and other receivables		**1,464**	2,340
Cash and cash equivalents		**6,240**	1,775
		7,897	4,411
Total assets		**79,752**	60,798
Liabilities			
Current liabilities			
Trade and other payables		**10,686**	10,290
Provisions		**417**	438
		11,103	10,728
Non-current liabilities			
Trade and other payables		**31**	29
Provisions		**10,595**	8,430
Deferred tax liabilities		**2,597**	2,674
		13,223	11,133
Total liabilities		**24,326**	21,861
Net assets		**55,426**	38,937
Capital and reserves			
Share capital		**15,669**	11,110
Share premium		**41,441**	23,655
Merger reserve		**14,190**	14,190
Share incentive plan reserve		**568**	335
Foreign currency translation reserve		**(7,464)**	(5,162)
Retained losses and other distributable reserves		**(8,980)**	(5,191)
Equity attributable to owners of the Company		**55,424**	38,937
Non-controlling interests		**2**	-
Total equity		**55,426**	38,937

Notes 1 to 9 form an integral part of this report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2018

	Notes	**6 months ended 30 June 2018 (Unaudited) $'000**	6 months ended 30 June 2017 (Unaudited) $'000
Cash flows from operating activities			
(Loss) / profit before taxation		**(4,270)**	200
Depletion, depreciation and amortisation		**2,172**	415
Impairment loss		**620**	-
Decommissioning and abandonment expenditure		**(501)**	(828)
Business acquisition expenses	**2**	**115**	-
Gain on step acquisition	**6**	**(2,025)**	-
Loss on termination of option	**6**	**2,178**	-
Gain on bargain purchase		**-**	(1,627)
Foreign exchange (gain) / loss		**(10)**	10
Share-based payments	**2**	**669**	99
Other adjustments		**28**	122
Net cash outflow before movements in working capital		**(1,024)**	(1,609)
Decrease / (increase) in inventories		**243**	(77)
Decrease in trade and other receivables		**297**	3
Increase in trade and other payables		**283**	1,354
Net cash inflow from changes in working capital		**823**	1,280
Taxes paid		**-**	-
Net cash outflow from operating activities		**(201)**	(329)
Cash flows from investing activities			
Investments in property, plant and equipment		**(8,768)**	(2,645)
Expenditure on exploration and evaluation assets		**(575)**	(257)
Business acquisitions including acquisition costs	**6**	**(1,115)**	-
Increase in trade and other capital payable		**78**	-
Net cash outflow from investing activities		**(10,380)**	(2,902)
Cash flows from financing activities			
Issue of ordinary shares		**15,544**	1,813
Share issue expenses		**(281)**	(27)
Capital contributions from non-controlling interests		**2**	7
Net cash inflow from financing activities		**15,265**	**1,793**
Net increase/(decrease) in cash and cash equivalents		**4,684**	(1,438)
Cash and cash equivalents at start of period		**1,775**	6,584
Effect of exchange rate movements		**(219)**	21
Cash and cash equivalents at end of period		**6,240**	5,167

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2017

	Share capital $'000	Share premium account $'000	Merger reserve $'000	Share incentive plan reserve $'000	Foreign currency translation reserve $'000	Retained losses and other distributable reserves $'000	Total $'000	Non - controlling interests $'000	Total equity $'000
At 1 January 2017	10,575	22,390	14,190	377	(8,978)	(2,306)	36,248	(42)	36,206
Total comprehensive income for the period	-	-	-	-	1,634	768	2,402	(8)	2,394
Contributions by and distributions to owners of the Company									
Issue of shares during the period	521	1,292	-	-	-	-	1,813	-	1,813
Costs and fees associated with share issue	-	(27)	-	-	-	-	(27)	-	(27)
Equity share warrants lapsed or cancelled	-	-	-	(8)	-	8	-	-	-
Share-based payments	-	-	-	99	-	-	99	-	99
Total contributions by and distributions to owners of the Company	521	1,265	-	91	-	8	1,885	-	1,885
Changes in ownership interests in subsidiaries									
Capital contributions from non-controlling interests	-	-	-	-	-	-	-	7	7
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	7	7
At 30 June 2017	11,096	23,655	14,190	468	(7,344)	(1,530)	40,535	(43)	40,492

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2018

	Share capital $'000	Share premium account $'000	Merger reserve $'000	Share incentive plan reserve $'000	Foreign currency translation reserve $'000	Retained losses and other distributable reserves $'000	Total $'000	Non - controlling interests $'000	Total equity $'000
At 1 January 2018	**11,110**	**23,655**	**14,190**	**335**	**(5,162)**	**(5,191)**	**38,937**	**-**	**38,937**
Total comprehensive income for the period					**(2,302)**	**(4,183)**	**(6,485)**	**-**	**(6,485)**
Contributions by and distributions to owners of the Company									
Issue of shares during the period	**4,559**	**18,067**	**-**	**-**	**-**	**-**	**22,626**	**-**	**22,626**
Costs and fees associated with share issue	**-**	**(281)**	**-**	**-**	**-**	**-**	**(281)**	**-**	**(281)**
Equity share warrants exercised	**-**	**-**	**-**	**(436)**	**-**	**394**	**(42)**	**-**	**(42)**
Share-based payments	**-**	**-**	**-**	**669**	**-**	**-**	**669**	**-**	**669**
Total contributions by and distributions to owners of the Company	**4,559**	**17,786**	**-**	**233**	**-**	**394**	**22,972**	**-**	**22,972**
Changes in ownership interests in subsidiaries									
Capital contributions from non-controlling interests	-	-	-	-	-	-	-	**2**	**2**
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	**2**	**2**
At 30 June 2018	**15,669**	**41,441**	**14,190**	**568**	**(7,464)**	**(8,980)**	**55,424**	**2**	**55,426**

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2018

1. Basis of preparation

This unaudited condensed consolidated interim financial information has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively EU IFRSs). The principal accounting policies used in preparing the interim results are unchanged from those disclosed in the Group's Annual Report and Accounts for the year ended 31 December 2017 ("Annual Report"), except for the new and revised standards noted below. The Annual Report is available on the Company's website (www.cabot-energy.com) or by application to the Company's registered office.

Material uncertainty relating to going concern

The interim unaudited financial statements have been prepared on a going concern basis which assumes that the Group will be able to realise its assets and settle its obligations in the normal course of business. The financial statements do not reflect adjustments to the carrying values and classification of assets and liabilities that may be necessary should the Group be unable to continue as a going concern. Such adjustments may be material.

The Company's Board of Directors have reviewed the Group's cash flow forecasts for the period to 30 September 2019 and whilst there is positive forecast operating cash flows from its Canada producing assets, the Group will require additional external debt or equity funding by the end of 2018 in order to settle its creditors, fund its corporate costs and deliver Canada production growth. Whilst the Company has been successful in raising equity funding in the past and the directors are optimistic that the Company will raise additional equity funding, no new equity funding has been committed to date and it is not wholly within the Group's control. As such, this represents a material uncertainty which casts a significant doubt upon the Group's continued ability to operate as a going concern and it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Adoption of new and revised standards

The Group adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" at the start of the period. A number of amendments to existing standards and new interpretations were applicable from 1 January 2018. The adoption of these standards, amendments and interpretations did not have a material impact on the Group's condensed financial statements for the half-year ended 30 June 2018.

Notes to the Condensed Consolidated Interim Financial Statements Continued

for the six months ended 30 June 2018

2. Administrative expenses and other operating expenses

Administrative expenses

Administrative expenses of $2,396,000 includes $859,000 of restructuring costs including costs associated with the early termination of employee and director employment agreements during the period.

Other operating expenses

	6 months ended 30 June 2018 (Unaudited) $'000	6 months ended 30 June 2017 (Unaudited) $'000
Share-based payments	**669**	99
Environmental remediation costs	**1,139**	-
Business acquisition expenses (note 6)	**115**	-
	1,923	99

In accordance with IFRS 2 "Share-based payments", the Group reflects the economic cost of awarding share options to employees and Directors by recording an expense in the Statement of Profit or Loss equal to the fair value of the benefit awarded. The expense is recognised in the Statement of Profit or Loss over the vesting period of the award. Following the change of control on 5 January 2018, all options in issue vested immediately and the remaining charge to be recognised as an expense over the vesting period of the awards was recognised in full.

Environmental remediation costs of $945,000 were incurred as a consequence of the pipeline leak in the Rainbow area reported in 2017. In addition, the Group incurred $194,000 expenses to remediate and clean up two oil spills and to extinguish a fire on one of the Rainbow area leases

3. (Loss)/earnings per share

Basic (loss)/earnings per share amounts are calculated by dividing loss or profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted (loss)/earnings per share amounts are calculated by dividing loss or profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period, plus the weighted average number of shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. The calculation of the dilutive potential ordinary shares related to employee and director share option plans includes only those warrants or options with exercise prices below the average share trading price for each period.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2018

3. (Loss)/earnings per share

	6 months ended 30 June 2018 (Unaudited) $'000	6 months ended 30 June 2017 (Unaudited) $'000
Basic and diluted		
Net (loss) / profit attributable to equity owners	**(4,183)**	768

	Number 000s	Number 000s
Basic weighted average number of shares	**633,255**	312,366
Dilutive potential of ordinary shares:		
Options exercisable under Company schemes	**-**	3,259
Diluted weighted average number of shares	**633,255**	315,625

As the Group made a loss in the period to 30 June 2018 there is no dilution in the year from potential ordinary shares. At 30 June 2017, there were 3,259,005 options and no warrants with exercise prices below the average share trading price for the period, hence the number of potential dilutive ordinary shares is 3,259,000.

	6 months ended 30 June 2018 (Unaudited) $	6 months ended 30 June 2017 (Unaudited) $
Basic and diluted		
(Loss)/earnings per share	**(0.7 cents)**	0.2 cents

Notes to the Condensed Consolidated Interim Financial Statements Continued

for the six months ended 30 June 2018

4. Intangible assets

	Notes	**At 30 June 2018 (Unaudited) $'000**	At 31 December 2017 (Audited) $'000
Exploration and evaluation assets		**24,516**	28,428
Goodwill	6	**1,056**	-
Computer software		**36**	42
		25,608	28,470

An impairment loss of $13,000 has been recognised against the costs capitalised in respect of the Australian PEL629 licence, which is currently in suspension.

The carrying value of Canadian exploration and evaluation assets at 5 January 2018 was adjusted to a fair value of nil following the acquisition of High Power Petroleum Canada Limited ("H2P Canada"), see note 6 below.

5. Property, plant and equipment

	At 30 June 2018 (Unaudited) $'000	At 31 December 2017 (Audited) $'000
Oil and gas assets	**42,439**	22,202
Computer and office equipment	**48**	50
	42,487	22,252

The net increase of $20,237,000 in the carrying value of oil and gas assets from 31 December 2017 to 30 June 2018 includes a fair value uplift of $6,520,000 on existing Canada assets and recognition of $9,597,000 of Canada assets acquired from H2P, see note 6. The balance of $4,120,000 relates to the cost recognised in relation to capital expenditure incurred during the period offset by depletion and impairment.

An impairment loss of $564,000 has been recognised in respect of three wells on which capital expenditure was incurred, without a subsequent increase in reserves, resulting in the carrying value of the wells exceeding the recoverable value.

Four wells which are in the process of being abandoned and have no reserves were further impaired by $43,000 as a result of increases in their carrying value brought about as a result of the changes in estimates for abandonment.

6. Business acquisitions – Provisional acquisition accounting

Pursuant to a Share Purchase Agreement (the "SPA") dated 19 December 2017 between H2P and the Company, the satisfaction of all conditions precedent and the approval by the Company shareholders on 5 January 2018, the Company acquired 100% of the common shares of High Power Petroleum (NOP) UK Limited ("H2P UK") and its wholly-owned subsidiary High Power Petroleum Canada Limited ("H2P Canada") (the "Acquisition"). Prior to completion of the Acquisition, H2P Canada held a 25% interest in the Canadian assets and an option to acquire a further 25% interest for $4,000,000 consideration (the "H2P Option"), acquired in December 2016.

The consideration for the Acquisition was a total of $8,790,000, equivalent to H2P's 50% share of the pre-tax net present value of the Canadian oil & gas proven reserves as at 30 September 2017, as calculated by McDaniel & Associates Ltd less the H2P Option cost, settled by the issue of 103,796,081 new ordinary shares, at a price of GBP0.05 per share and deferred cash consideration of $1,750,000 million payable in monthly instalments between February 2018 and January 2019. Under the SPA, the H2P Option was terminated on completion of the Acquisition. The consideration has therefore been allocated between the cost of the H2P Option termination and the cost of the business combination.

Following the completion of the Acquisition, the Group's working interest in the Canadian assets increased from 75% to 100% and the Group obtained control over the previously held joint operation.

The Acquisition has been accounted for as a business combination under IFRS3, Business Combinations. Having acquired a controlling interest, 100% of the financial results of the Canada operations have been consolidated in the Company's consolidated financial statements from the SPA economic effective date of 1 January 2018. The assets and liabilities assumed as at January 5, 2018 have been recognised at their respective fair values as shown in the table below. As control was achieved in stages, assets and liabilities recognised as part of the previously held 75% interest have also been remeasured at fair value.

Under IFRS3 "Business Combinations", an acquirer has up to 12 months post completion of a transaction to finalise the acquisition balance sheet and as at the date of this report the fair values remain provisional.

Consideration:

	5 January 2018
	$'000
Cash	1,750
Shares	7,040
	8,790

Notes to the Condensed Consolidated Interim Financial Statements Continued

for the six months ended 30 June 2018

6. Business acquisitions – Provisional acquisition accounting *continued*

Consideration split between business combination and loss on option termination:

	5 January 2018 $'000
Consideration for the business combination	6,612
Loss on termination of option	2,178
	8,790

Identifiable assets acquired, and liabilities assumed:

	5 January 2018 Recognised values on acquisition $'000
Property, plant and equipment – oil & gas assets	9,597
Provisions – asset retirement obligation	(2,985)
Deferred tax liability	(1,081)
Inventories	152
Trade and other receivables	2
Trade and other payables	(192)
Goodwill recognised on acquisition	1,119
Consideration for the business combination	**6,612**

Remeasurement of previously held interest at fair value:

	5 January 2018 Recognised adjustments to carrying values at remeasurement $'000
Property, plant and equipment – oil & gas assets	6,520
Intangible assets	(3,746)
Deferred tax liability	(749)
Gain on step acquisition	**2,025**

Acquisition costs of $115,000 have been incurred and expensed in the period, see note 3. Of the $1,750,000 deferred cash consideration, $1,000,000, had been settled at 30 June 2018.

Notes to the Condensed Consolidated Interim Financial Statements
for the six months ended 30 June 2018

6. Business acquisitions *continued*

The revenue generated, and expenses incurred by the re-acquired 25% of the operation since the date of acquisition (5 January 2018) were $1,831,000 and $1,884,000 respectively. Of the $1,884,000 expenses, $1,098,000 relates to production costs, $526,000 relates to depletion and amortisation of plant property and equipment, $260,000 relates to other operating expenses and $3,000 relates to finance costs for the unwinding of discount on decommissioning provisions. Cash outflow from the operation post acquisition was $2,186,000 and comprised net revenue and investments in oil and gas assets.

7. Post balance sheet events

Between the balance sheet date of 30 June 2018 and the date that this 2018 financial information has been published, no developments have been announced which have a material impact on, or the understanding of, this financial information.

8. Approval by directors

The interim results for the six months ended 30 June 2018 were approved by the Directors on 28 September 2018.

9. Availability of interim report

The interim report will be made available in electronic format on the Company's website, www.cabot-energy.com. Further copies will be available on request by application to the Company Secretary at the Company's administrative office, being 93-95 Gloucester Place London W1 6JQ.

Directors, Offices and Advisers

Directors

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Non-executive Chairman

P Mychalkiw
Chief Financial Officer

C Airlie
Chief Technical Officer

P Lafferty
President

Company Secretary

W J Anderson

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