



ZOETIC INTERNATIONAL PLC

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

OFFICERS AND PROFESSIONAL ADVISORS

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ZOETIC INTERNATIONAL PLC
CHIEF EXECUTIVE'S STATEMENT AND INTERIM MANAGEMENT REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

It is a pleasure to present Zoetic's interim results for six months ended 30 September 2019. This six month period is perhaps the most significant in the Company's history to date in that it has seen a radical reshaping of our business. We established our CBD business at the beginning of the period, we have changed our name and redefined our strategy as we completed the transformation from our natural resources heritage to a vertically integrated CBD company. As we enter 2020, we have the following achievements to look back on:

- 25 retail product lines (19 in the UK and 6 in the US) across our two retail brands of Zoetic and Chill
- Successful first outdoor grow and harvest
- Commencement of feminised hemp seeds programme with first production expected early next year

Of perhaps greater significance, in a matter of months we have established Zoetic and Chill as recognised brands in their respective markets and we have done so with only limited spending on marketing and promotional material. Our clear objective in 2020 is to turn this recognition into sales. In both the UK and US the level of interest and enquiry from retailers and distributors has increased significantly. We will support both of our brands with increased advertising and, for Chill, bespoke display cases for stores.

In addition to this rapid development of our CBD business, we have significantly restructured our natural resources business. This division now trades profitably month to month and, at present, remains the Group's largest revenue stream.

Away from our business operations, we also successfully began trading on the OTC in New York in November this year, being the first London-listed CBD company to do so, and our investor relations activities now include the United States as well as the UK. Given the size of that investor community, this will take time to develop, but our plans for 2020 include greater dissemination of announcements in the US, specialist public relations and investor relations support, virtual investor conferences and attendance at investor shows. By trading on the OTC, we have given ourselves a platform and the onus is now on us to use it effectively.

CBD Division

Since we commenced CBD retail sales, at the end of June 2019 in the US and the beginning of August 2019 in the UK, total revenue is marginally over £65,000. Of this, £36,000 was generated during the period to 30 September 2019. Our CBD business remains in its early phase and our primary objective in 2019 has been to establish our two brands, Zoetic and Chill, and develop within them successful product lines. Whilst revenue remains modest at present, the key performance indicator that the management team are focused on is revenue growth and, in this regard, performance has been satisfactory with revenue in the past 30 days being equivalent to around one third of total CBD revenue generated to date.

UK retail – Zoetic

Initial sales of Zoetic-branded CBD products were made in the UK in early August which, significantly, marked the first occasion the Company had generated revenue outside of the US. Since August, we

have been selling four flavours of oral tinctures which are available in two strengths and, in October, we added massage oil to our product line up. This quickly became our best-selling product line during the month of November and vindicated our decision to develop and launch a range of cosmetics. In the final week of that month, we began selling our night cream, face drops, lip balm and hand cream. We also introduced softgels in two strengths in the same week, taking our number of product lines in the UK to 15.

As we announced on 25 November, we also decided to commence sales of CBD gummies. These edible sweets are currently being packaged and will be available for sale at the start of the new year in two strengths of 10mg and 25mg. Our intention is now to sell the gummies in two flavour combinations, lemon-lime & mango and strawberry & raspberry. Significantly, the gummies are branded "Chill" and this is that brand's first introduction to the UK and Europe. Even before launch, we are in receipt of several enquiries regarding the gummies and so we are optimistic about the performance of this new product line.

All of our oral CBD products, as well as our lip balm, are suitable for vegans.

With a wider range of products, the attractions of the Zoetic brand in the UK and Europe have increased and already we are seeing considerably more traction with retail outlets, particularly those larger organisations that have a preference for few suppliers but with multiple product lines. We are matching this with increased engagement in marketing and advertising, the most significant of which is that we have secured a page in EasyJet's in-flight magazine for the months of January, February and March 2020. With the airline carrying 8 million passengers per month, this represents a substantial publicity opportunity for the brand, as well as being good value for money based on cost per number of potential views. We will continue to assess other means of promoting our brand and products during the year.

Our plans for the Zoetic brand are to continue to focus on the beauty and cosmetics market and, with that in mind, we have booked to present our products at the Natural & Organic Products Europe show in London in April and the Beauty UK Show in Birmingham in May. As with our advertising plans, we will examine the merits of attending other trade fairs, including specialist Hemp and CBD shows, throughout the year.

Online sales of Zoetic products have been pleasing to date but our primary objective is to place the products with major retailers in 2020. Naturally this is lower margin than direct sales but the increased volume and, even more importantly, the independent validation that this gives the brand are essential as we seek to grow in the UK and Europe. As previously announced, we plan to improve the user experience at www.zoetic.uk.com in early 2020 as well as continue to develop our social media presence in support of our brand.

US retail – Chill

Chill branded products commenced sales in the US at the end of June, initially in a small number of Schrader Oil convenience stores. We now have six product lines (three flavours of chew pouches and three blends of smokables) and Chill products are now sold in 89 convenience stores across seven states in the US, as well as online at www.thechillway.com. Our new blends of smokables were released for sale today and the two new flavours of chew pouches should be available for sale by the end of this year. Indicative orders received prior to launch for these new products from our retail partners currently stand at just under US\$12,000.

It is significant that our most successful product to date across the Group is the mint flavoured chew pouch. Many new product launches are based on extensive market research and formula changes but, from the date we launched it, our chew pouch has required no alterations to either the ingredients or packaging. We cannot expect such instant success with every product but it is testament to the entire team that we got this one right at the first attempt.

Our partnership with LeafyQuick, who offer a same day delivery service in the Chicago area, has got off to a promising start. Our respective teams are in regular communication and, as LeafyQuick's own business develops and grows in scale, we are well placed to benefit.

In October we announced our partnership with Mr. Checkout, a national group of distributors in the US, operating direct store distribution from the manufacturer. It represents products in over 60 major retailers in the US and manages 13 industry associations with over 150,000 independent retail members, visiting over 50,000 locations bi-weekly. Our initial trial with Mr. Checkout is now underway with 15 distributors. Naturally, we all hoped to be underway sooner but, on an objective view, setting up a plan for national distribution in under three months is far faster than many in the retail sector experience. Assuming a successful outcome, Chill products could extend further into their network.

As previously announced, we are in contract negotiations with a further major distributor and also have interest from a third. If we proceed with these two further major distributors, as well as Mr. Checkout, then demand for Chill products will almost certainly exceed the Company's existing manufacturing capacity. With that in mind, we have been exploring solutions, including both outsourcing some manufacturing and expanding our in-house capacity. Our preliminary conclusion is that the former solution is most appropriate, mainly due to the speed at which we can increase manufacturing with an outsource partner. This route also has a capital expenditure saving and, provided volumes are sufficient, should enable us to maintain our current margins on the finished products.

Our relationship with Schrader Oil continues to be important and the team there provide us with valuable market feedback on our products. Significantly, seven out of 10 samples given to retailers have resulted in a repeat order and we understand that Chill is outselling a national CBD brand in Schrader Oil stores (on a per stock unit basis). As we continue to build data of this type, we gain confidence that Chill products have the potential to build a meaningful market share in the US. With this level of interest from distributors, we have high expectations for performance of the brand in 2020. As I said above, our challenge is to match our manufacturing capabilities with this faster than expected demand.

Feminised seed programme

As we announced on 25 November, in anticipation of commencing sales of feminised hemp seeds in the first quarter of next year, we have started developing framework arrangements with seed distributors in the United States and we are now well positioned in this regard ahead of the growing season. Since our last update, progress has been in line with our expectations and the management team continue to anticipate that our first high quality feminised seeds will be ready in early 2020. Importantly we remain on target to sell into the 2020 growing season and to reach maximum capacity at our indoor facility in DeBeque in the coming months.

As I have said several times in recent months, we are dealing with a living organism and by altering its natural development there can be no guarantees; however the work that the team have put in during 2019 is remarkable for its thoroughness and attention to detail. There have been some disputes elsewhere in the US over the quality of feminised seeds that have been sold. In line with our retail

products, protection of our brand is paramount and we remain focused on ensuring that our feminised seeds, when available for sale, will be of the highest quality.

Natural resources division

On 4 September, we announced a plan to carry out an orderly sale or closure of our natural resources business. The principal reason for this was that this division carried several liabilities that needed to be addressed, particularly potential taxes on production at our East Denver project and the likely plugging and abandonment costs at our Montana operations. The division had also accumulated a significant number of invoices that were unpaid at that time. Over the past three months, we have implemented a series of cost cutting measures within the natural resources division, comprising a reduction of staff, the elimination of retained consultants and the cessation of all prospecting activities.

What became apparent very quickly is that the division was carrying a far greater weight of cost than was necessary for it to operate and, consequently, we were able to effect our proposed cost cuts faster and to a greater degree than we initially envisaged. Today the division employs one person full time and a second member of staff part time and requires only limited assistance from other parts of the Group. Consequently, for the first time in the Company's history, we have a profitable natural resources business. The monthly revenue from our East Denver project exceeds salaries, all expenses associated with our Denver office and our share of operating costs at the project. Costs for maintaining our other natural resources interests are negligible.

Out of the positive cashflow generated from our East Denver project, we have been able to satisfy all overdue invoices and bring the Group as a whole onto a far more stable financial footing. Certain liabilities associated with the division remain but the Company is now far better placed to address these as they fall due.

The marketing of our natural resources division has produced three meaningful expressions of interest to date. However, in light of the dramatically improved performance of the division since September, the Board is no longer minded to sell its natural resources projects, and particularly our East Denver project, for anything other than a compelling price. We will continue to assess interest in the projects but, for so long as the division is cash positive and supporting the Company's other activities, there is no longer any urgency to conclude a sale.

Despite that, the Board continues to review the ongoing viability of certain projects and, with that in mind, we have concluded that our natural gas and helium project in Montana should be closed down. I recognise this will be a disappointment to many of our long term shareholders but the speculative nature of the project, along with the considerable capital expenditure it would require for further investigation, means that we cannot justify continuance as being a good use of shareholder funds, particularly given our new focus as a vertically integrated CBD company. Once the weather improves in the spring of next year, we will plug and abandon the well and allow all leases in Montana to expire. We are currently exploring methods of selling certain physical assets that we own in Montana and Kansas which, if realised, could cover some or potentially exceed all of the costs of plugging and abandoning the well and reclaiming the location. There is no cost to the Company in allowing the leases to expire.

Highlands Water Resources Corporation, a subsidiary formed last year to provide recycled fresh water for oil and gas operations, was sold on 24 July 2019. The buyer paid no cash consideration but the Company retains a 10% interest in the business. Revenues from that Company have been negligible but, should it achieve the necessary scale in the future to be a meaningful industry participant, we

may receive some return on our investment. In the meantime, we have divested any responsibility for managing that company or addressing any of its obligations and, specifically, we have no liability to contribute to any future funding.

Our office in Denver is now too large for the team based there and, in line with cost cutting activities elsewhere in the Group, we have appointed a real estate agent to sublet the office. Marketing for potential new tenants began last month. Once a suitable sub-tenant has been secured, the Denver team will relocate to a smaller office.

Financial Review

The unaudited consolidated statement of financial position as at 30 September 2019 and the consolidated statement of comprehensive income for the six months to that date are set out below. Zoetic generated revenues of £1.15 million in H1 2019, with the natural resources division accounting for £1.12 million and the CBD division, which commenced sales at the end of June 2019 in the US and the beginning of August 2019 in the UK, reporting £36,000. Revenue in the year to date is £1.27 million from the natural resources division and £65,000 from the CBD division.

East Denver, in common with most oil and gas projects, is a declining asset and, in the absence of unexpected movements in oil and gas prices, the Company expects second half revenues to be lower in its natural resources division. However, as explained above, largely due to much reduced employment costs and the cessation of all prospecting activities, the division is trading profitably and the Board expects it to remain so throughout the second half of the year. Going forward, we are mindful that planned workovers, as well as unexpected interruptions, will inevitably continue to influence results in this division but, of considerable importance, is that the operator, True Oil, is successfully managing operating costs and these have continued to decline in recent months as we anticipated.

In the CBD division, sales comprised those made in convenience stores in the US and those made online in the UK through www.zoetic.uk.com. Since the end of the period, Chill products have been sold online at www.thechillway.com and Zoetic products have been sold in stores in the UK. These are early days for both brands but we are encouraged by the customer feedback and growing levels of repeat orders and the management team continues to have confidence in our opportunities here.

Cash balances at 30 September 2019 were a little over £1.0 million. Whilst the Group remains cash consuming overall, we have prudently managed our cash and have supplemented this since that date with:

- Further revenues from our natural resources and CBD divisions
- Recovery of approximately US\$149,500 of performance bonds and recovered project costs, with a further US\$49,500 expected in the coming weeks
- Receipt of US\$44,854 from Diversion Technologies LLC ("Diversion") in satisfaction of a debt owed to the Company

Expenses for the first half of the year totalled £2.9 million. A considerable proportion of these relate to the establishment of our CBD business but, in addition, there was extensive use of consultants and professional advisers, primarily within the natural resources division. One of my first actions following taking on the role of CEO was to bring these arrangements to an end and they will not be repeated going forward.

Since August, the Board has also implemented a wide range of cost cutting measures. These have been concentrated on the natural resources division although I have personally conducted a review of the spending practises across the entire Group and we have sought to streamline our costs and find more efficient methods in all that we do down to the smallest expenses. We previously announced that our pro forma operating costs are in the region of £2.5 million per annum and this remains the case. We also predicted that, as our CBD operations expand, we should expect some cost increases primarily relating to the purchase of raw materials, manufacturing and higher headcount. However, the Company now operates to a far greater degree of discipline and the Board will only sanction further increases in operating costs if it is satisfied that the revenue opportunities they will bring are clearly identifiable and can be delivered profitably. In the meantime, we have continued to assess further cost reduction opportunities to offset this expected expansion and, by way of example, this month we have identified a further annualised savings of over US\$15,000 in our IT commitments.

Our review also revealed a greater number of performance bonds that could be reclaimed from the US states in which they were lodged. The Company has previously paid approximately US\$419,000 of performance bonds (versus the US\$360,000 we have previously quoted). As I explained above, approximately US\$149,500 has already been refunded and we are waiting for a further payment of US\$49,500 which is due any day now. The remainder should be recovered during 2020.

In October, we put into effect a longstanding plan to grant share options to all permanent members of staff in both the UK and US. This forms an important part of our ongoing remuneration arrangements as well as aligns the interests of the staff with our shareholders. 7,155,000 share options were granted at an exercise price of 10 pence per share, being the price of the last fundraising carried out prior to the AGM, and challenging performance conditions were set including setting a share price of 18 pence for full vesting of all options. We will continue to grant share options to new members of staff and to reward our existing team and future options will have similar conditions to those granted this year.

In recent weeks, we have completed the buy back of 950,000 shares from Diversion and have received a payment of US\$44,854 which, together, fully satisfy Diversion's outstanding debt to Zoetic. This was an important piece of housekeeping as well as cash management. As it post-dates the period under review, it will be reflected in our year end results. The Diversion debt arose from the development of the Company's re-fracking and parent well protection technology, DT Ultravert, which is 25% owned by Diversion but for which the Company bore the costs in full. We do not envisage any further expenditure on DT Ultravert for the foreseeable future and, in any event, it is the Board's new policy to ask Diversion to cover its share of costs at the time they fall due. Consequently we do not expect this debt to recur.

As I explained above, we have taken the decision to close our natural gas and helium project in Montana and we have written off our entire investment in that project. As previously announced, we are no longer actively pursuing a strategy in natural resources and therefore we are also writing down to zero the value of certain peripheral projects at this time, including those in Utah and North Dakota. The consequential effect is a fair value provision on our profit and loss account of £2.3 million. Notwithstanding this write down, we continue to assess all means of monetising these projects, either through a sale of the project as a whole or by selling certain assets associated with them.

Under its previous name and strategy, Highlands Natural Resources was a high spending company that committed too much capital to speculative projects. With the launch of Zoetic, we have changed the culture in recent months and much of my time, and that of the executive team, has been spent on reappraising our corporate strategy and ensuring we take measures to deliver best value for our shareholders. Much of this has been directed at establishing a business that can live within its means.

As our CBD division grows in stature and, we believe, in revenue, Zoetic will approach self-sufficiency. Whilst nothing is certain at this time, the distribution contacts we are negotiating and our plans to sell feminised seeds can each produce a marked change in our financial results. Until that time, shareholders should expect Zoetic to continue down the path of sensible cost management and responsible handling of our shareholders' investment.

Outlook

The progress we have made in establishing our CBD business this year has surpassed our expectations. The rapid roll out of our brands and product lines has been achieved on a considerably faster timetable than we envisaged at the outset; the successful outdoor harvest in our first year, particularly when many of our neighbours struggled with growing conditions, has established us as a true "seed to shelf" business. The impending launch of our feminised seeds business also offers a potential new revenue stream.

Despite these achievements, I have regularly reminded investors that we continue to face a number of challenges and there is no time for complacency. It is right and proper that the success of our CBD operations is judged on revenue creation and, in time, cashflow. A realistic objective for 2019 was to establish our brands, Zoetic and Chill, in their respective markets. Based on the number of product lines, distribution opportunities and overall feedback on the brands, we have hit that target but the next step is to generate volume sales and all of the management team are mindful that this is the true test for our brands. The platform that we have created could not be better and the onus is now on us to turn the positive feedback into revenue for the Company.

Away from the operational side of the business, we have throughout the period under review, and since, increased our investor relations activities, including using social media and a variety of investor communication platforms. We will continue to do this during 2020, and in particular will expand these activities into the US to support our trading on the OTC. Zoetic has an exciting story to tell and we will invest time in developing a wider investor following.

Shareholders have come to know me for my conservative approach and I am not one for grand predictions but I remain confident that our multi-channel sales approach can bring success to our Company. We have a number of key events in the first quarter of 2020 and I will look forward to providing regular updates.

Nick Tulloch

CEO

23 December 2019

ZOETIC INTERNATIONAL PLC
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

	Notes	Unaudited Six months ended 30 September 2019 £	Unaudited Six months ended 30 September 2018 £	Audited Year ended 31 March 2019 £
Revenue		1,159,975	522,408	1,016,399
Administrative expenses		(2,885,870)	(3,028,735)	(5,511,418)
Operating loss		<u>(1,725,895)</u>	<u>(2,506,327)</u>	<u>(4,495,019)</u>
Fair value provision against exploration assets	3	(2,313,913)	-	-
Loss on disposal of intangible asset		-	(1,883,820)	(1,276,178)
Finance income		1,043	308	473
Loss on ordinary activities before taxation		<u>(4,038,765)</u>	<u>(4,389,839)</u>	<u>(5,770,724)</u>
Taxation on loss on ordinary activities	4	-	-	-
Loss for the period		<u>(4,038,765)</u>	<u>(4,389,839)</u>	<u>(5,770,724)</u>
Items that may be re-classified subsequently to profit or loss: Foreign exchange adjustment on consolidation		162,167	1,076,070	1,060,393
Total comprehensive loss for the period attributable to the equity holders		<u><u>(3,876,598)</u></u>	<u><u>(3,313,769)</u></u>	<u><u>(4,710,331)</u></u>
Loss per share (basic and diluted) attributable to the equity holders (pence)	5	<u><u>(2.86) p</u></u>	<u><u>(3.74) p</u></u>	<u><u>(4.88) p</u></u>

ZOETIC INTERNATIONAL PLC
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 SEPTEMBER 2019

	Notes	Unaudited At 30 September 2019 £	Unaudited At 30 September 2018 £	Audited At 31 March 2019 £
NON -CURRENT ASSETS				
Tangible assets	6	1,534,966	60,659	1,503,499
Intangible assets	7	1,198,237	4,126,719	3,432,536
		<u>2,733,203</u>	<u>4,187,378</u>	<u>4,936,035</u>
CURRENT ASSETS				
Inventory		474,342	-	-
Trade and other receivables		1,752,056	784,854	1,186,814
Cash and cash equivalents		1,076,810	1,993,973	1,508,649
		<u>3,303,208</u>	<u>2,778,827</u>	<u>2,695,463</u>
Total assets		<u>6,036,411</u>	<u>6,966,205</u>	<u>7,631,498</u>
CURRENT LIABILITIES				
Trade and other payables		2,724,080	712,313	1,314,370
		<u>2,724,080</u>	<u>712,313</u>	<u>1,314,370</u>
NET ASSETS		<u>3,312,331</u>	<u>6,253,892</u>	<u>6,317,128</u>
EQUITY				
Share capital	8	1,478,700	1,181,644	1,364,831
Share premium account	8	2,018,616	-	1,276,611
Share based payments reserve		674,383	826,140	793,218
Foreign currency translation reserve		(260,399)	(406,889)	(422,566)
Retained profit/(loss)		(598,969)	4,652,997	3,305,124
TOTAL EQUITY		<u>3,312,331</u>	<u>6,253,892</u>	<u>6,317,128</u>

ZOETIC INTERNATIONAL PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

	Share capital	Share premium account	Share based payments reserve	Foreign currency translation reserve	Retained profit / (loss)	Total
	£	£	£	£	£	£
At 31 March 2018	<u>5,824,885</u>	<u>12,819,639</u>	<u>887,541</u>	<u>(1,482,959)</u>	<u>(8,681,445)</u>	<u>9,367,661</u>
Comprehensive income for the period						
Loss for the period	-	-	-	-	(4,389,839)	(4,389,839)
Other comprehensive income	-	-	-	-	-	-
Translation adjustment	-	-	-	<u>1,076,070</u>	-	<u>1,076,070</u>
Total comprehensive loss for the period attributable to the equity holders	-	-	-	1,076,070	(4,389,839)	(3,313,769)
Issue of warrants	-	-	-	-	-	-
Exercise of warrants	83,333	116,667	(61,401)	-	61,401	200,000
Shares issued in the period	-	-	-	-	-	-
Cost relating to share issues	-	-	-	-	-	-
Re-organisation of share capital in period	(4,726,574)	(12,936,306)	-	-	17,662,880	-
At 30 September 2018	<u>1,181,644</u>	<u>-</u>	<u>826,140</u>	<u>(406,889)</u>	<u>4,652,997</u>	<u>6,253,892</u>
Comprehensive income for the period						
Loss for the period	-	-	-	-	(1,380,885)	(1,380,885)
Other comprehensive income	-	-	-	-	-	-
Translation adjustment	-	-	-	<u>(15,677)</u>	-	<u>(15,677)</u>
Total comprehensive loss for the period attributable to the equity holders	-	-	-	(15,677)	(1,380,885)	(1,396,562)
Lapse of warrants	-	-	(33,012)	-	33,012	-
Exercise of warrants	-	-	-	-	-	-
Shares issued in the period	183,187	1,373,903	-	-	-	1,557,090
Cost relating to share issues	-	(97,292)	-	-	-	(97,292)

At 31 March 2019	<u>1,364,831</u>	<u>1,276,611</u>	<u>793,128</u>	<u>(422,566)</u>	<u>3,305,124</u>	<u>6,317,128</u>
Comprehensive income for the period						
Loss for the period	-	-	-	-	(4,038,765)	(4,038,765)
Other comprehensive income	-	-	-	-	-	-
Translation adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,167</u>	<u>-</u>	<u>162,167</u>
Total comprehensive loss for the period attributable to the equity holders	-	-	-	162,167	(4,038,765)	(3,876,598)
Issue of warrants	-	-	15,927	-	-	15,927
Exercise of warrants	50,000	375,000	(15,927)	-	15,927	425,000
Lapse of warrants	-	-	(118,745)	-	118,745	-
Shares issued in the period	63,869	407,830	-	-	-	471,699
Cost relating to share issues	-	(40,825)	-	-	-	(40,825)
At 30 September 2019	<u>1,478,700</u>	<u>2,018,616</u>	<u>674,383</u>	<u>(260,399)</u>	<u>(598,969)</u>	<u>3,312,331</u>

ZOETIC INTERNATIONAL PLC
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

	Unaudited Six months ended 30 September 2019	Unaudited Six months ended 30 September 2018	Audited Year ended 31 March 2019
	£	£	£
Cash flow from operating activities			
Loss for the period	(4,038,765)	(4,389,839)	(5,770,724)
Adjustments for:			
Depreciation and amortisation charges	236,393	73,317	323,842
Write off costs of lapsed leases	-	-	242,329
Loss on disposal of intangible assets		1,883,820	1,276,178
Fair value adjustment on unproved assets	2,313,913		
Charge for the period in respect of share based payments	15,927	-	-
Net exchange adjustments	(63,992)		408,396
Costs settled by issue of shares	17,700	-	-
Operating cash flow before working capital movements	<u>(1,518,824)</u>	<u>(2,432,702)</u>	<u>(3,519,979)</u>
Increase in inventories	(474,342)	-	-
(Increase)/decrease in trade and other receivables	(708,316)	1,748,457	1,346,493
Increase/(decrease) in trade and other payables	1,552,784	(2,001,236)	(1,399,179)
Net cash flow from operating activities	<u>(1,148,698)</u>	<u>(2,685,481)</u>	<u>(3,572,665)</u>
Cashflows from investing activities			
Purchase of tangible fixed assets	(147,957)	(2,746)	(18,913)
Investment in intangible assets, exploration and drilling rights	(4,047)	(830,017)	(1,426,609)
Proceeds from sale of exploration and drilling rights	-	4,269,504	4,239,126
Net cash generated/(absorbed) by investing activities	<u>(152,004)</u>	<u>3,436,741</u>	<u>2,793,604</u>
Cashflows from financing activities			
Net proceeds from issue of shares	<u>855,874</u>	<u>200,000</u>	<u>1,659,798</u>
Net increase in cash and cash equivalents			
As above	(444,828)	951,260	880,737
Cash and cash equivalents at beginning of period	1,508,649	602,814	602,814
Foreign exchange adjustment on opening balances	12,989	439,889	25,098
Cash and cash equivalents at end of period	<u>1,076,810</u>	<u>1,993,973</u>	<u>1,508,649</u>

ZOETIC INTERNATIONAL PLC
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

1. GENERAL INFORMATION

Zoetic International plc (“the Company”) and its subsidiary companies (together “the Group”) are primarily involved in the oil and gas development sector.

The Company is incorporated and registered in England and Wales as a public limited company under the Companies Act 2006 (“the Act”) with registered number 09309241. The registered office is 25 Walbrook, London EC4N 8AF and the principal place of business in the United Kingdom is Suite 2/09, King James VI Business Centre, Friarton Road, Perth PH2 8DY.

2. ACCOUNTING POLICIES

Basis of preparation

The interim condensed unaudited consolidated financial statements for the period ended 30 September 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting. The comparative figures for 31 March 2019 are extracted from the Group’s audited accounts to that date. The comparative figures for the period ended 30 September 2018 are unaudited.

The condensed unaudited consolidated interim financial statements of the Group have been prepared on the basis of the accounting policies, presentation, methods of computation and estimation techniques used in the preparation of the audited accounts for the period ended 31 March 2019 and expected to be adopted in the financial information by the Company in preparing its annual report for the year ending 31 March 2020.

The financial information of the Company is presented in British Pounds Sterling (“£”).

Leases

IFRS 16 Leases became applicable for the current reporting period and the Group has complied with this accounting standard for the first time. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the group under residual value guarantees;
- The exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease, where applicable. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period.

Right-of-use assets are measured at cost which comprises the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases (term less than 12 months) and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Low-value assets comprise office equipment and furniture.

Impact

The Directors reviewed all the Group's leasing arrangements and identified one applicable contract, a property lease, which commenced during the period and which has been recognised as a lease liability in the 30 September 2019 balance sheet. An associated right-of-use asset was recognised for that lease.

The directors consider that all other leasing arrangements in force during the current and previous periods are short term or of low value.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate, which was taken as being 5%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases.

On 1 April 2019, the Group recognised the following lease liabilities:

	\$'000
Current	264
Non-current	930
Total	1,194

The associated right-of-use assets for the property lease was measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Right-of-use assets recognised on 1 April 2019 were:

	\$'000
Property	1,194

At 30 September 2019, included in both assets and liabilities are balances of \$1,087 in respect of future discounted lease liabilities and future right-of-use asset.

3. IMPAIRMENT PROVISION

The Company has decided to close down its natural gas and helium project in Montana. The project remains speculative in nature and will require a considerable level of capital expenditure for further investigation and it is no longer considered a good use of shareholder funds to continue with it. Furthermore, as Zoetic is no longer actively pursuing a strategy in natural resources, it is also writing down to zero the value of certain peripheral projects, primarily those in Utah and North Dakota. The consequential effect of these actions is that the Company has taken a fair value provision of £2.3 million on its profit and loss account. Notwithstanding this write down, Zoetic continues to assess all means of monetising these projects, either through a sale of the project as a whole or by selling certain assets associated with them.

4. INCOME TAX EXPENSE

No tax is applicable to the Company for the period ended 30 September 2019. No deferred income tax asset has been recognised in respect of the tax losses carried forward, due to the uncertainty as to whether the Company will generate sufficient profits in the foreseeable future to prudently justify this.

5. LOSS PER SHARE

Basic loss per ordinary share is calculated by dividing the loss attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There are currently no dilutive potential ordinary shares.

	Earnings £	Weighted average number of shares	Loss per share (pence)
Loss per share attributed to ordinary shareholders	<u>(4,038,765)</u>	<u>141,287,214</u>	<u>(2.86)</u>

6. TANGIBLE ASSETS

Tangible assets comprise producing oil assets plus sundry plant and office equipment.

	Total £
Cost at 31 March 2019	1,885,836
Additions during the period	147,957
Disposals during the period	-
Exchange adjustment	113,662
Cost carried forward	<u>2,147,455</u>
Amortisation at 31 March 2019	382,337
Charge during the period	207,108
Eliminated on disposals during the period	-
Exchange adjustment	23,044
Amortisation carried forward	<u>612,489</u>
Net book value brought forward	<u>1,503,499</u>
Net book value carried forward	<u>1,534,966</u>

7. INTANGIBLE ASSETS

Intangible assets comprise the 75% stake in certain granted and pending patents acquired from Diversion Technologies LLC ("Diversion") plus various leases and mining rights together with exploration and development costs paid during the period.

	Patent rights £	Exploration and evaluation assets £	Total £
Cost at 31 March 2019	706,500	2,996,861	3,703,361
Additions during the period	-	4,047	4,047
Disposals during the period	-	-	-
Exchange adjustment	-	180,623	180,623
Cost carried forward	<u>706,500</u>	<u>3,181,531</u>	<u>3,888,031</u>
Amortisation at 31 March 2019	270,825	-	270,825
Charge during the period	35,325	-	35,325
Fair value provision during the period	-	2,383,644	2,383,644
Exchange adjustment	-	-	-
Amortisation carried forward	<u>306,150</u>	<u>2,383,644</u>	<u>2,689,794</u>
Net book value brought forward	<u>436,375</u>	<u>2,996,861</u>	<u>3,432,536</u>
Net book value carried forward	<u>400,350</u>	<u>797,887</u>	<u>1,198,237</u>

8. SHARE CAPITAL & RESERVES

Allotted, called up and fully paid Ordinary shares of £0.01 each:

	Number of shares	Share Capital £	Share Premium £
Balance at 31 March 2019	136,483,080	1,364,831	1,276,611
6 June 2019 - issue of shares at 8.5p on exercise of warrants	5,000,000	50,000	375,000
6 June 2019 – placing of shares at 10p per share	1,000,000	10,000	90,000
27 August 2019 – placing of shares at 6.9p per share less costs	5,386,954	53,869	277,005
Balance at 30 September 2019	<u>147,870,034</u>	<u>1,478,700</u>	<u>2,018,616</u>

The Company has only one class of share and all shares rank *pari passu* in every respect.

9. SUBSEQUENT EVENTS

There have been no events since the period end that require disclosure or inclusion in this statement.