KISTOS

ENERGY IN TRANSITION

# Energy in Transition

**2021 Annual Report and Accounts**

For the period ended 31 December 2021

Kistos plc

# Contents



| €'000 | | 14 October 2020 – 31 December 2021[1] |
|---|---|---|
| Gas production | MM $Nm^3$ | 157 |
| Gas production | 000 MWh | 1,892 |
| Revenue | €'000 | 89,628 |
| Average realised gas price | €/MWh | 47.31 |
| Unit opex[2] | €/MWh | 3.25 |
| Adjusted EBITDA[3] | €'000 | 78,861 |
| Pro forma EBITDA[3] | €'000 | 102,862 |
| Loss for the year | €'000 | (73,857) |
| Net cash from operations | €'000 | 47,956 |
| Capital expenditures (cash) | €'000 | (19,958) |
| **Total cash** | **€'000** | **77,288** |

1. Production figures relate to the period from 20 May 2021 to 31 December 2021.
2. Calculated as production costs divided by production.
3. The Company uses certain measures of performance that are not specifically defined under IFRS or other generally accepted accounting principles. The Company uses Adjusted EBITDA as a measure to assess the performance of the Company. EBITDA is defined as profit/(loss) for the year before additions/deductions of tax credit/(charge), net finance costs, depreciation and amortisation. The adjusted EBITDA measure excludes the effects of significant items of income and expenditure which may have an impact on the quality of earnings such as reversal of provisions and impairments when the impairment is the result of an isolated non-recurring event.

2021 Year in Review

# Strategic and Operational Highlights

## Acquisition of Tulip Oil Netherlands B.V.

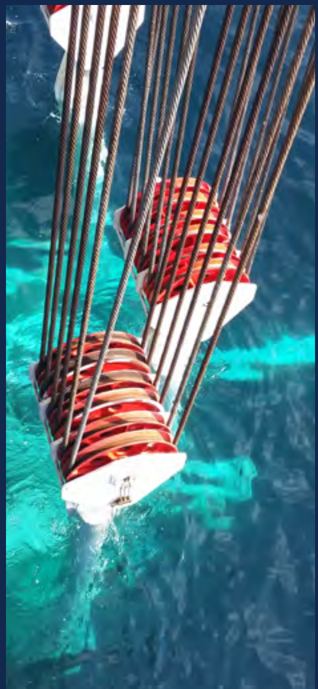
Completed the acquisition of Tulip Oil Netherlands B.V. and Tulip Oil Netherlands Offshore B.V. (subsequently renamed Kistos NL1 B.V. and Kistos NL2 B.V. respectively) in May 2021.

## 20% interest in Greater Laggan Area (GLA)

After the year end, Kistos announced that it had reached an agreement with TotalEnergies to acquire a 20% interest in the Greater Laggan Area (GLA) West of Shetland for US$125MM (excluding contingent payments).

## 18.1 MMboe

Year-end 2P reserves of 18.1 MMboe, calculated by reference to estimates published in our 2021 CPR adjusted for subsequent production.



## 1.31 MM Nm³ per day

Q10-A gas field produced at an average gross rate of 1.31 MM Nm³ per day (0.79 MM Nm³ per day net to Kistos NL2) on a pro forma basis in the year to 31 December 2021.

## $CO_2$

The wind turbines on the renewably powered Q10-A platform were upgraded in 2021 to help minimise $CO_2$ emissions.

## Drilling campaign completed in February 2022

Successful drilling campaign commenced in July 2021 and safely completed in February 2022:

- Appraisal of the Orion oil field tested 3,200 b/d and development studies are underway.
- Appraisal of the Q11-B discovery successfully flowed at a combined rate of over 0.27 MM Nm³ per day from the Bunter and Zechstein reservoirs but failed to encounter gas in the primary Slochteren target. Development studies are underway.
- Sidetrack of the A-04 well at Q10-A increased production by >0.8 MM Nm³ per day.

## GLA production

On a pro forma basis, this transaction is expected to add 6.2 MMboe of 2P reserves and 2.5 MMboe of 2C resources plus net production in 2022 of approximately 6,000 boe/d.

2021 Year in Review

# Financial Highlights

## EBITDA > €100MM

Pro forma EBITDA of €102.9MM (see Financial Review) in the 12 months to 31 December 2021.

## €150MM issued of Nordic Bonds

Issued €150MM of Nordic Bonds (€60MM of new bonds and €90MM of refinancing) in conjunction with the €223MM Tulip Oil acquisition.

## Result for the period

Loss after tax of €40.1MM reflects total impairments of €121.0MM.

Impairments include €119.8MM related to the Q11-B appraisal well not encountering gas in the Slochteren formation.

## 18.1 MMboe

Year-end 2P reserves of 18.1 MMboe, calculated by reference to estimates published in our 2021 CPR adjusted for subsequent production.

## Over €100MM raised

Raised over €100MM from equity investors between incorporation (October 2020) and the end of 2021.

## Business development opportunities

Given its financial strength and in line with its strategy, the Group continues to evaluate several business development opportunities in the energy transition space.

## €23.8MM capital expenditure

Capital expenditure in 2021 was €23.8MM on an accruals basis, 95% of which occurred in the second half of the year when the drilling campaign was underway.

## €77.3MM cash balance

Cash balances on 31 December 2021 were €77.3MM (30 June 2021, €59.1MM).

# Strategic Report

Executive Chairman's Statement

# A Strong Start

## After listing on AIM in the final quarter of 2020, the first half of 2021 saw Kistos commence the execution of its strategy to acquire assets with a role to play in the energy transition.

**Andrew Austin**
Executive Chairman

We did so by purchasing Tulip Oil Netherlands (renamed Kistos NL1) and its subsidiary, Tulip Oil Netherlands Offshore (renamed Kistos NL2), from Tulip Oil Holding B.V. (the "Acquisition"). This transaction brought with it 60% interests in and operatorship of the producing Q10-A gas field as well as the Orion oil discovery and the Q11-B gas discovery exploration and evaluation assets in the Dutch sector of the North Sea.

In the six months to the end of June 2021, production from Q10-A averaged 1.43 MM $Nm^3$ per day. Two months after the completion of the acquisition, Kistos announced the commencement of a six-month drilling campaign, which resulted in Q10-A exiting the year with output significantly higher at 1.8 MM $Nm^3$ per day. In addition, an appraisal of the Orion oil discovery tested at a rate of 3,200 b/d and an appraisal of the Q11-B gas discovery flowed gas from the Bunter and Zechstein formations, although it failed to encounter gas in the primary Slochteren target, leading to an impairment of €119.8MM. Studies are now underway to establish the optimum way of developing both fields.

As detailed in the independent Competent Persons Report (CPR) published in conjunction with the Acquisition, the 2P reserves associated with the acquired assets were 20.0 MMboe as of 31 December 2020. After taking account of production from Q10-A during the course of last year, this figure was 18.1 MMboe on 31 December 2021. I expect this figure to increase as we progress towards a Final Investment Decision (FID) with the Orion and Q11-B projects, enabling us to convert 2C resources to 2P reserves.

Crucially, Kistos achieved this increase in reserves and production while abiding by its founding principle of being part of the energy transition. Natural gas will be critical to Europe's transition to a low carbon economy, which is demonstrated by the European Commission's decision to categorise investments in natural gas production as 'transitional economic activities'. Our Q10-A platform has an extremely low carbon footprint thanks to the integration of wind turbines and solar panels into its design. We will take a similar approach to any future development projects.

> **"Scope 1 $CO_2$ emissions relating to production activities remain industry leading in the Netherlands and are estimated to have been less than 0.01 kg per boe in 2021."**

Reported EBITDA for 2021 was €78.9MM (see Financial Review) while adjusted pro forma EBITDA, which includes a full 12 months contribution from Kistos NL1 and Kistos NL2, was €102.9MM. This was weighted towards the second half of the year, when gas prices were significantly higher and production responded to our drilling and workover campaign. Hence, we ended the year with cash balances of €77.3MM, which was achieved after capital expenditure of €20.0MM on a cash basis. With high gas prices carrying over into 2022 and production from the Q10-A gas field significantly higher than when we acquired it, the current year has started strongly.

Central to our operations is our health, safety, and environmental (HSE) performance. I am pleased to report that we did not suffer any Lost Time Injuries in 2021 despite undertaking more than five months of drilling and testing operations. Neither did we suffer any disruption to our operations from COVID-19 thanks to the rigorous procedures we have in place to combat and, if necessary, contain the virus. Meanwhile, the wind turbines, which were upgraded in 2021, and the solar panels on the Q10-A platform continue to minimise our $CO_2$ emissions.

We expect to drive further operational progress across our portfolio in 2022. Currently, our plans to construct a new gas export pipeline from Q10-A to IJmuiden, are on hold while we review alternatives that have been proposed by other stakeholders, thus ensuring that we pursue the option that adds most value for shareholders. Similarly, with the help of Rockflow Resources, our technical team in the Netherlands is taking a rigorous approach to the Concept Assess and Concept Select phases of the Q-10 Orion oil field development project.

## Executive Chairman's Statement

In January 2022, we announced that we had reached agreement with TotalEnergies to acquire a 20% interest in the Greater Laggan Area ('GLA') offshore the UK. Once this transaction completes, which we expect to occur during the second quarter of 2022, Kistos' output is expected to increase by approximately 6,000 boe/d. Importantly, with an effective economic date of 1 January 2022, the benefit of the high commodity prices that have prevailed since the beginning of the year has been for our account and will be reflected in the amount payable to the vendor at completion.

Although we do not set explicit long-term targets for reserves or production, believing instead that the shareholder value is a more important metric, we remain committed to growing the business. From a standing start in the fourth quarter of 2020, we have built an excellent platform from which to do so, and we will seek to deploy further capital for the right opportunities. With that in mind, we continue to evaluate potential acquisitions. However, it is critical that we maintain capital discipline and we must be prepared to walk away from transactions if we do not believe they will be accretive to shareholder value.

Finally, I would like to thank all our stakeholders for their work and commitment to the Company and to thank staff, contractors, co-venturers and others for their continued support. I believe we are well-placed to continue generating substantial returns for investors and look forward to reporting further progress during 2022.

**Andrew Austin**
Executive Chairman

6 April 2022

**Chief Executive Officer's Review**

# Operating Review

2021 was a critical year for Kistos, as we transitioned from being an investing company to an operating business with significant reserves, production and technical expertise.

**Peter Mann**
Chief Executive Officer

Our newly purchased Dutch assets contributed over seven months of production to the Group and exited the year with output of 1.8 MM Nm$^3$ per day versus 1.2 MM Nm$^3$ per day at acquisition. Average daily production post-acquisition was lower than pre-acquisition owing to planned and unplanned shutdowns on the P15-D platform in the third quarter of the year. Nevertheless, on a pro forma basis for the whole of 2021 output was 1.31 MM Nm$^3$ per day and is anticipated to be higher in 2022.

An important part of the acquisition in the Netherlands was gaining access to a highly skilled workforce and an operating capability. It is a tribute to the team that we had no Lost Time Injuries in 2021, despite undertaking more than five months of drilling and testing operations. It also led to the uplift in production referred to above, a successful flow test from the Q10-A Orion oil discovery, and a successful flow test from the secondary targets at the Q11-B gas discovery.

## Drilling Campaign

Our drilling campaign commenced with the arrival Borr Drilling's Prospector-1 jack-up drilling rig at the Q10-A field in mid-July 2021. By the time the rig went off contract in February 2022, we had successfully completed:

- A flow test of the Q10-A Orion oil discovery, which is located in a naturally fractured reservoir overlying the producing Q10-A gas field.
- A sidetrack of the Q10-A-04 well, which was not producing, to a new location in the Slochteren formation. This is the field's primary producing reservoir.
- A series of workovers on existing producing wells at the Q10-A gas field.
- An appraisal well on the Q11-B gas discovery, which failed to encounter gas in the primary Slochteren target but tested over 0.27 MMcm/d from secondary target.

After the target formation at Q10-A Orion was encountered on prognosis at a depth of 1,562 metres TVDss, an 825 metres horizontal section was drilled by the Prospector-1. The well was flow tested for five days and, during this time, a maximum rate of 3,200 barrels of oil per day (bopd) was achieved. This was higher than anticipated and the good quality oil (33° API) was sold to a local refinery. We are now evaluating development options for the field.

Although the Q11-B appraisal did not encounter gas in its primary target, it did successfully test gas from the Bunter and Zechstein formations, both of which are also productive at Q10-A. Although this means the volume of gas at Q11-B is materially less than we would have hoped, which resulted in an impairment of €119.8MM, we are working to establish the viability of a smaller development tied back to Q10-A.

## Gas Producing Assets

### Q10-A (Kistos 60% and operator)

As Kistos' only producing asset in 2021, the Q10-A gas field was responsible for 100% of the Company's gas production. It straddles the Q07 and Q10-A production licences approximately 20 km offshore the Netherlands and received development approval in January 2018. This followed the drilling of a successful appraisal/development well in 2015. Little more than a year after the project was sanctioned, commercial gas production was achieved in February 2019.

The facilities comprise a remotely operated, unmanned platform with six well-slots, located in relatively shallow water of approximately 21 metres.

The platform was designed to have as small a carbon footprint as possible, with on-board wind turbines and solar panels providing most of its power. Furthermore, any visits to the platform are carried out by boat rather than helicopter. Hence, we estimate the Scope 1 emissions related to our activities offshore the Netherlands were less than 0.01 kg $CO_2$e/boe in 2021, excluding flaring undertaken during our drilling campaign. Produced gas is exported through a dedicated 42 km pipeline to the TAQA-operated P15-D platform, where it is processed for onward transportation to shore.

## Development Projects

### Q10-A Orion (Kistos 60% and operator)

The Q10-A Orion oil field is located directly above the Q10-A gas field in the relatively shallow (<1,600 metres) Vlieland sandstone formation. This is a proven play in the area, with the P09 Horizon field and the P15 Rijn field both producing from this zone. Although the Vlieland has low porosity and permeability, it also contains natural fractures that can significantly enhance productivity. This was shown to be the case at Q10-A Orion in the third quarter of 2021, when we drilled a sidetrack from the Q10-A-04 well and flow tested an 825 metres horizontal section at a rate of 3,200 b/d.

This result led to a decision to commence the Concept Assess phase of development planning for the field. This involves building new static and dynamic reservoir models before evaluating several development concepts with a view to creating a shortlist of

Chief Executive Officer's Review

options to take forward into a more detailed Concept Select phase of work. This is expected to be completed in the second quarter of 2022, potentially enabling an investment decision to be taken by the end of the year.

### Q11-B (Kistos 60% and operator)

An appraisal of the Q11-B discovery failed to produce gas from its primary target. However, this disappointment was tempered by successful tests from the Zechstein and Bunter formations. Work is now underway to assess the economics of the Q11-B field and this is expected to be completed by the end of 2022.

## Proposed Acquisition

After the period end, on 31 January 2022, Kistos entered into an agreement with TotalEnergies S.E. ('TotalEnergies') to acquire:

- 20% working interests in the producing Laggan, Tormore, Edradour, and Glenlivet gas fields, located offshore the UK West of Shetland.
- A 20% interest in the undeveloped Glendronach gas field.
- A 25% interest in block 206/4a, which contains the 638 Bcf (operator's P50 resource estimate) Benriach prospect.
- A 20% interest in the Shetland Gas Plant.

The consideration payable in respect of the Acquisition comprises:

- Initial cash consideration of US$125MM payable on completion (subject to customary closing adjustments and less the deposit paid of $6.25m).
- In the event the average day-ahead gas price at the National Balancing Point exceeds 150p/therm in 2022, up to US$40MM will be payable in January 2023.
- Should Benriach be developed, Kistos will pay US$0.25 per MMBtu of net 2P reserves after first gas.

Kistos expects production from the assets to be acquired to average approximately 6,000 boe/d (net) during 2022, which will approximately double full year Group output on a pro forma basis. Importantly, emissions from GLA production operations are forecast by Kistos to be approximately 13 kg $CO_2e$/boe in 2022, which is significantly below the North Sea average of 22 kg $CO_2e$/boe (as estimated in the Oil & Gas Authority (OGA)'s 'UKCS natural gas carbon footprint analysis' of 26 May 2020). Proved and probable reserves as at 1 January 2022, which is the effective date of the acquisition, were 6.2 MMboe (operator's estimate).

The producing GLA gas fields are in water depths of approximately 300 to 625 metres and are located up to 125 km north-west of the Shetland Islands. Development approval was originally granted in 2010 and first gas was achieved at the Laggan and Tormore fields during 2016. The Glenlivet and Edradour fields received development approval in 2015 and subsequently came on-stream in 2017. Meanwhile, the Glendronach field was discovered in 2018 and it is anticipated that the development will utilise existing infrastructure. This includes the Shetland Gas Plant, where the gas is processed prior to export to the St. Fergus Gas Terminal in Scotland.

Completion is expected to occur in the second quarter of 2022 subject to customary regulatory and partner consents.

# Financial Review


### Results for the 63 weeks ended 31 December 2021

| | | 31 December 2021 (actual) | 31 December 2021 (pro forma)[4] |
|---|---|---|---|
| Production | million Nm³ | 157 | 288 |
| | '000 MWh | 1,892 | 3,460 |
| Revenue[3] | €'000 | 89,628 | 116,731 |
| Unit opex[1] | €/MWh | 3.25 | 2.83 |
| Adjusted EBITDA[2] | €'000 | 78,861 | 102,862 |
| Impairments | €'000 | (121,036) | (128,507) |
| (Loss)/profit before tax | €'000 | (73,857) | (65,940) |
| Earnings per share | € cents | 0.68 | 0.68 |
| Net cash from operations | €'000 | 48,698 | n/a |
| Average realised gas price | €/MWh | 47.31 | 33.58 |
| **Total cash** | **€'000** | **77,288** | **77,288** |

Note The financial results are prepared in accordance with IFRS, unless otherwise noted below:

1. Non-IFRS measures. Refer to the alternative performance measures definition within the glossary on page 77.
2. Adjusted EBITDA is calculated on a business performance basis. Refer to the alternative performance measures definition within the glossary on page 77.
3. Includes the impact of effective realised gain on cash flow hedges.
4. Pro forma information in respect of the enlarged Group is based on 12 months of Kistos NL1, Kistos NL2 and Kistos plc for the year 2021.

## Production and Revenue

Actual production on a working interest basis totalled 157 MM Nm³ (2.4 kboe/d) in the 63 weeks to 31 December 2021. This reflects the acquisition of Tulip Oil Netherlands ('TON') on 20 May 2021. Had Kistos acquired TON on 1 January 2021, average production in 2021 would have been 288 MM Nm³ or 0.79 MM Nm³/d (5.3 kboe/d).

The Group's average realised gas price during the period was €47.31/MWh and total revenue from gas sales was €89.5MM. On a pro forma basis, these figures were €33.58/MWh and €116.2MM. Revenue from condensate sales was €0.1MM or €0.6MM on a pro forma basis.

## Costs

Production costs for the period following the acquisition of TON was €6.1MM or €3.25 per MWh. The latter figure would have been 13% lower or €2.83 per MWh if the acquisition of TON had completed on 1 January 2021. During 2021, Kistos NL2 incurred pre-FID development expenses of €4.5MM on potential alternative evacuation routes for the Q10-A platform. As FID was not taken on the project these costs have been expensed in the profit and loss account. Further studies are being undertaken in 2022 with other partners.

### Adjusted EBITDA

| €MM | 31 December 2021 (actual) | 31 December 2021 (pro forma)[1] |
|---|---|---|
| **Adjusted EBITDA** | **78,861** | **102,862** |
| Depreciation and amortisation | (13,277) | (20,247) |
| Impairments | (121,036) | (128,507) |
| Pre-FID expenses | (4,456) | (4,535) |
| Transaction costs | (2,864) | (2,172) |
| **Operating loss** | **(62,772)** | **(52,599)** |

1. Pro forma information in respect of the enlarged Group is based on 12 months of Kistos NL1, Kistos NL2 and Kistos plc for the year 2021.

The Group reported adjusted EBITDA of €78.9MM or €41.68 per MWh in the 63 weeks to 31 December 2021. On a pro forma basis, adjusted EBITDA was €102.9MM or €29.73 per MWh in the period. The impairment of €121.0MM relates primarily to the failure of the Q11-B appraisal well to encounter gas in the Slochteren formation. It also included a total of €1.2MM for the restimulation of the Q10-A06 well (€1.4MM), the abandonment of Donkerbroek Hemrik (€0.4MM) and a reversal of the impairment of the partial abandonment of the Q10-A04 well (€0.6MM).

## Financial Review

### Capital Expenditure

Consistent with our growth plans and to ensure we maximise the value of our asset portfolio, capital expenditure in 2021 was €23.8MM on an accruals basis. The bulk of this – €23.7MM – related to our drilling campaign, while expenditure on an alternative export route was expensed given the project is pre-FID. Given we are now investigating possible alternatives to a new pipeline to IJmuiden, capital expenditure in 2022 will not ramp up as much as we originally expected.

### Profit/loss before tax

There was an actual operating loss of €62.8MM during the period and a loss before tax of €73.9MM. This figure was after impairments of €121.0MM, and finance costs of €11.1MM, including interest charges of €9.0MM associated with the €150MM of Nordic Bonds (€60MM of new bonds and €90MM of refinancing) issued by Kistos NL2 during the period. There was also a loss on redemption of €0.8MM relating to an €87MM Nordic Bond refinancing. On a pro forma basis, there was a €65.9MM pre-tax loss for the period. As well as the items referred to above, this figure also reflects interest charges relating to the €87MM bond prior to its redemption.

Before expenses, Kistos raised €102.4MM from equity investors and issued €150MM of Nordic Bonds (€60M of new bonds and €90M of refinancing) during the period. After acquiring Tulip Oil Netherlands and other expenses, this led to the Company holding cash and cash equivalents of €77.3MM on 31 December 2021.

In May 2021, Kistos hedged 100,000 MWh per month at a price of €25/MWh for the 9-month period from July 2021 to March 2022 to cover anticipated capital expenditure over the period. Based on the prevailing gas price of €64.85/MWh, this resulted in the creation of a €5.9MM hedge reserve at year end.

### Financial position

| €'000 | 31 December 2021 (actual) |
|---|---|
| **Cash and cash equivalents at beginning of period** | - |
| Net cash generated from operating activities | 47,956 |
| Net cash used in investing activities | (120,654) |
| Net cash from financing activities | 149,986 |
| **Net increase/(decrease) in cash and cash equivalents** | **77,288** |
| Exchange (losses)/gains | - |
| **Cash and cash equivalents on 31 December 2021** | **77,288** |

### Proposed Acquisition

After the period ending 31 January 2022, Kistos entered into an acquisition agreement with TotalEnergies (see page 9 for further details). Completion is subject to partner and OGA approval. The consideration payable in respect of this transaction comprises cash of US$125MM (subject to customary closing adjustments and less the deposit paid of $6.25m), and further contingent cash payments as follows:

- In the event the average day ahead gas price at the National Balancing Point exceeds 150p/therm in 2022, up to US$40MM will be payable in January 2023.
- Should Benriach be developed, Kistos will pay US$0.25 per MMBtu of net 2P reserves after first gas.

# Who We Are

## Kistos plc is an independent, UK-based company that creates value for investors through the acquisition and management of businesses in the energy sector.

Established in October 2020 and headquartered in London, we aim to build a balanced, long-term portfolio with high-quality production and development assets, energy storage infrastructure and energy generation projects along with industry-leading carbon footprint credentials.

In May 2021, Kistos transitioned from being an investing company to an operating business when we acquired Tulip Oil Netherlands B.V. and its subsidiary, Tulip Oil Netherlands Offshore B.V. (renamed Kistos NL1 and Kistos NL2, respectively). Our newly purchased Dutch business provides us with significant reserves, production capability and technical expertise.

Our Board members will use their extensive experience to identify opportunities for further acquisitions as well as operational improvements while fully embracing the Net Zero 2050 and energy transition agenda.

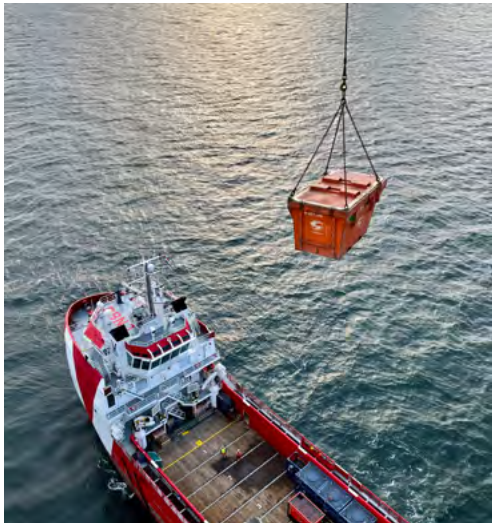
## Market Context

The energy market in which we operate is undergoing significant change. With society's growing demand for power and the impact that greenhouse gases (GHGs) from fossil fuels are having on our climate reaching a crisis point, we are starting to see a concerted shift towards renewable and low-carbon alternatives.

Over the last couple of years, COVID-19 has also impacted the energy sector. The pandemic plunged the world economy into a historic recession and forced businesses to change assumptions, reset strategies and introduce new ways of working. Undoubtedly, the demand for our products was also affected but, over the long term, we believe that our strategy will prove to be sustainable and successful.

### Our stakeholders

- Shareholders and investors
- Customers
- Employees and contractors
- Suppliers and strategic partners
- Communities
- Non-governmental organisations and civil society stakeholders
- Governments and regulators



Who We Are

## Our operations

The Company operates a number of exploration and production licences offshore the Netherlands, in which we have a 60% working interest. Our joint venture partner, Energie Beheer Nederland (EBN), holds the remaining 40% interest for all our licences.

### Gas production

Commercial gas production from the Q10-A gas field – located 20 km offshore – began in February 2019. The field, sitting across the Q07 and Q10-A licences, was responsible for 100% of our gas production in 2021. The gas is exported through a 42 km pipeline to the TAQA-operated P15-D platform, where it is processed and transported to shore.

### Exploration and development

Having successfully appraised the Q10-A Orion oil discovery, located alongside the Q10-A gas field, we will commence development planning with a view to taking FID later in 2022.

We also drilled an appraisal well in late 2021 at the Q11-B discovery, approximately 13 km offshore. Although the primary target did not contain gas, two secondary targets were tested and work to establish whether these reservoirs contain sufficient volumes to be commercially viable is expected to complete later in 2022.

### Future plans

For our operated interests in the Q10-B block, we are evaluating the potential to drill an appraisal well (Q10-B) and an exploration well (Q10-Gamma).

In May 2021, we undertook a geophysical survey of the proposed route for a 23 km gas export pipeline from Q10-A to a new gas treatment facility (GTF) at IJmuiden. We are also evaluating alternative routes.

Kistos NL1 has a 60% interest in the M10a and M11 gas discoveries north of the Dutch island of Terschelling, located approximately 9 km offshore. Planning and permits for appraisal wells are pending and consultation with key stakeholders is on-going.

# What We Do

## What we rely on

### Employees and contractors
- 23 employees
- 6 contractors

### Natural resources
- 18.1 MMboe proved and probable reserves (end-2021), calculated by reference to estimates published in our 2021 CPR adjusted for subsequent production.

### Financial resources
- €77.3 million of cash at end-2021
- €305.0 million capital employed
- €20.0 million cash capital expenditure

### Tangible assets
- 6 producing wells

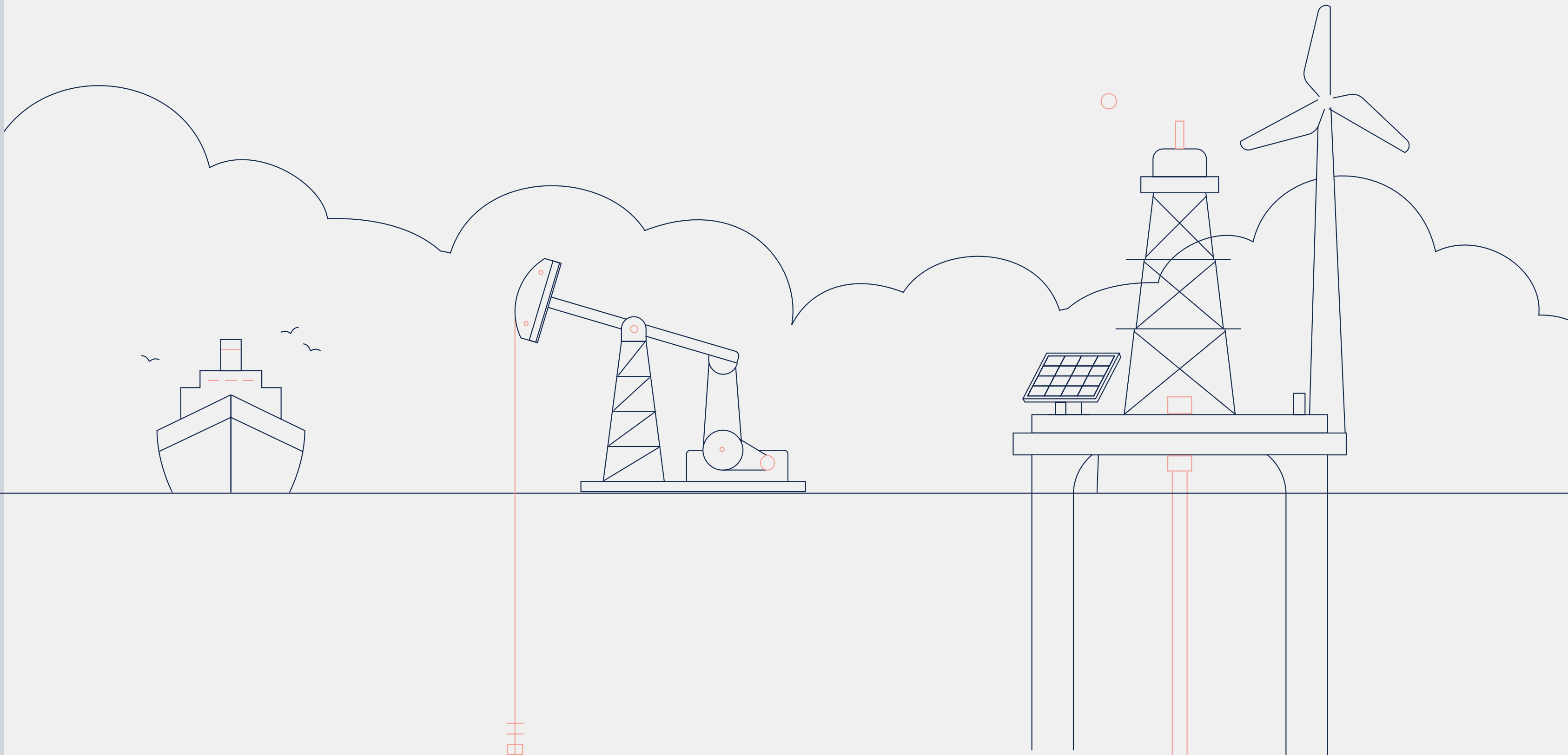
## What we do

### Identify and explore
We seek to identify oil and natural gas fields, primarily in North-West Europe, through acquisition or exploration.

### Develop and drill
We drill appraisal wells to assess the viability of oil and natural gas discoveries, and develop the infrastructure and assets needed for viable commercial production.

### Extraction
We progress development assets into oil and gas production from our operated licences in a safe, responsible and sustainable manner.

### Transport and trading
We produce natural gas from the Q10-A field via a third-party platform for onward transport to shore where it is sold. We are exploring the viability of alternative export routes.

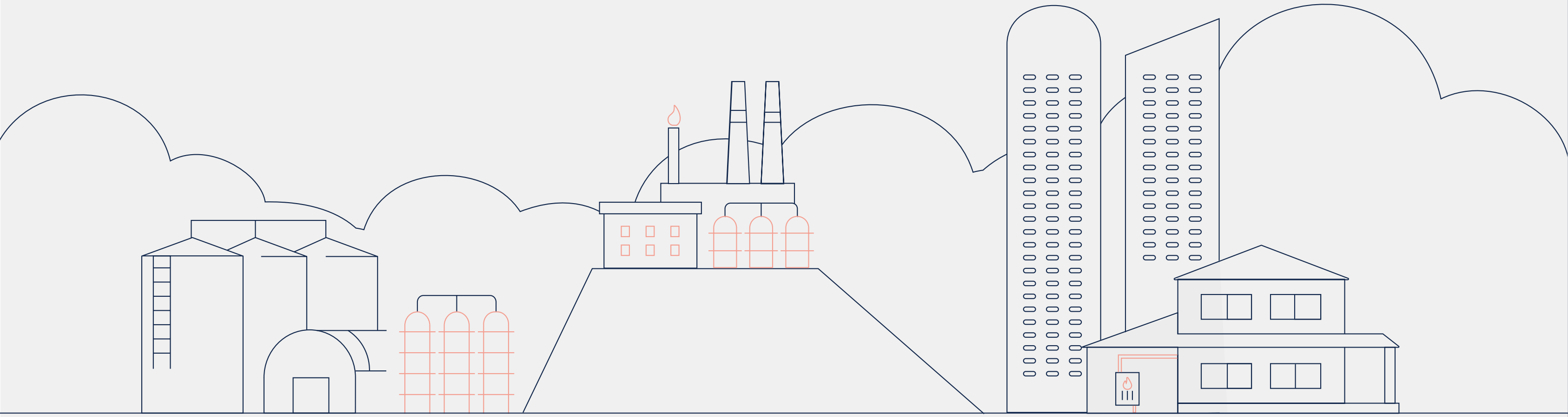


## What We Do

### Customers
Wholesale gas buyers – typically utility or other large energy companies – are increasingly looking to buy gas with a lower carbon footprint.

### Storage
We are looking at energy storage solutions as well as carbon capture, utilisation and storage opportunities as a way to future-proof our business.

### Use
Our produced gas is used by industrial and other commercial companies, utility and other power generation businesses, and by residential customers.



## Creating value

### Energy transition and climate change
- Estimated Scope 1 emissions from our operated activities offshore of 2,080 tonnes

### Investors
- €117MM in sales revenue

### Our people
- €2.9 million in employee salary and benefits
- 17% women in senior leadership and management positions

### Contribution to countries of operation
- €15.5 million total spend on goods and services

# Our Business Strategy

Our main objectives are to generate value for shareholders while maximising our sustainability and low-carbon footprint credentials. In short, we want to make returns to shareholders in a way that benefits current and future generations.

## Our role in energy transition

The world needs to move on from fossil fuels such as coal, towards more sustainable sources of energy. This is not straightforward, but Kistos is a hydrocarbon business that fully embraces the Net Zero 2050 agenda. Our founding principle is to be part of the energy transition by producing gas with the lowest possible carbon footprint.

Producing natural gas will be critical to Europe's transition to a low-carbon future, so our approach involves increasing our reserves and production capacity of natural gas with low Scope 1 and 2 GHG emissions.

We already proudly produce gas in the North Sea through the unmanned Q10-A platform, which is powered by wind turbines and solar energy to minimise its carbon footprint.

## Our growing portfolio

We believe that shareholder value is a more important metric than reserves or production capacity, but we remain committed to growing our business.

In the first half of 2021, we purchased Tulip Oil Netherlands (renamed Kistos NL1) and its subsidiary, Tulip Oil Netherlands Offshore (renamed Kistos NL2). This deal provided us with 60% interests in, and operatorship of, the producing Q10-A gas field, as well as other oil and gas discoveries in the Dutch sector of the North Sea.

Then, in January 2022, we agreed to acquire a 20% interest in the Greater Laggan Area (GLA) gas fields West of Shetland from TotalEnergies. This will further increase our gas production capacity and provides an additional foothold in the UK from which we can continue to grow our business.

### Focusing on environmental, social and governance (ESG) issues

Beyond our business strategy, it is important to manage the environmental and social issues associated with our Company through responsible business practices. On the following pages, we summarise how we identified our priority ESG issues, our new ESG strategy and our new ESG goals.

# Our Material ESG Issues

In the second half of 2021, we undertook our inaugural materiality assessment, to identify and prioritise the issues related to sustainability and responsible business that are most important to Kistos.

## The materiality process

To help manage risk, we need to understand the ESG issues that matter to our stakeholders and are most significant to our business. In the second half of 2021, Flag Communications was commissioned to undertake our first-ever materiality analysis.

The process involved:

- A desk-based research and media scan;
- A review of Kistos' corporate approach and policies;
- A review of material issues reported by a benchmark group of peers and best practice companies; and
- Interviews with seven internal and external subject matter experts, to score potential material issues in terms of impact on the business and influence over stakeholders.

**Materiality matrix**

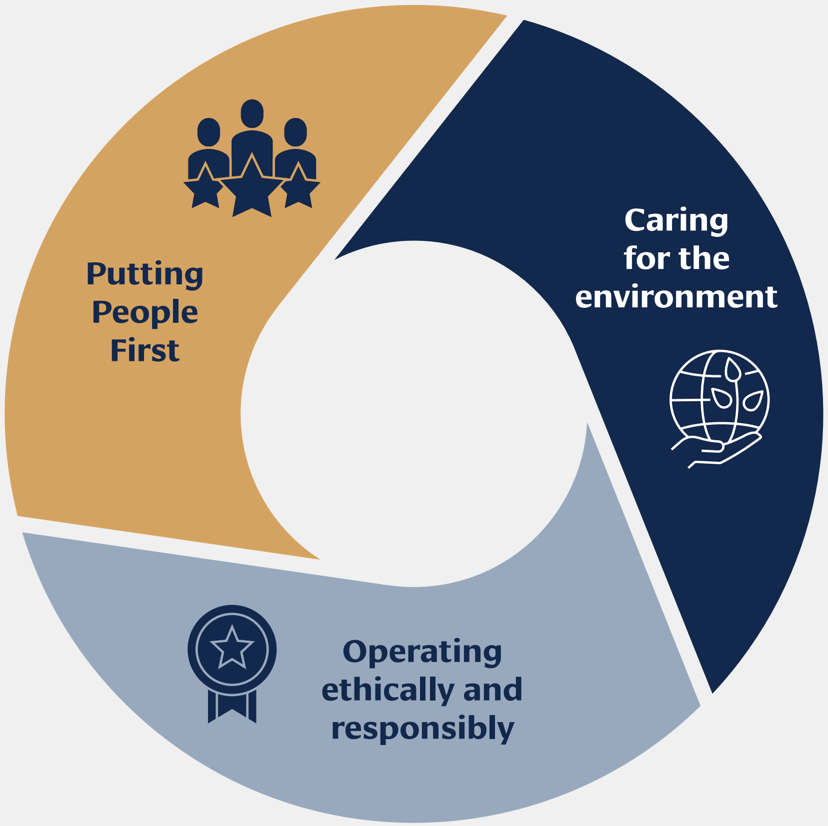
Below, we summarise the key responses and findings from these stages. All issues plotted on the matrix are significant to both stakeholders and Kistos, but the most material issues were deemed to be: Spills and Incidents; Risk Management; and Health and Safety. Most issues are interrelated and should not be considered in isolation.

# Our ESG Strategy

As an energy business with a vital role to play in society's transition to a low-carbon future, we explore opportunities for growth and create value for our investors. But we do so in harmony with the planet and with people at the heart of our approach.

Our inaugural materiality assessment (see page 17) helped us to identify the ESG issues that are most important to the Company and our stakeholders. It is these issues that have formed the foundation for our ESG strategy, grouped under three pillars covering environmental, social and governance issues.

In particular, our new strategy will broaden the scope of our stewardship approach to the environment. By fully embracing the European Union's aim to reach net zero GHG emissions by 2050 and working with suppliers to promote good practice, we are confident that we can contribute to a more sustainable future without compromising our growth ambitions.




**Caring for the environment**

We will continue to put sustainability first with every decision we make.

- Action on Climate Change
- Global Energy Transition
- Operational Energy Use
- Spill Performance
- Air Quality, Emissions and Waste
- Decommissioning
- Ecological Impacts and Biodiversity

**Operating ethically and responsibly**

We will act with integrity to ensure we're always doing the right thing.

- Risk Management
- Business Ethics and Governance
- Operations in Sensitive or Complex Locations
- Sustainable Procurement
- Financial Risks of Climate Change
- Funding and Investment
- Economic Performance

**Putting People First**

We will create safe, inclusive workplaces, promote human rights and strengthen our communities.

- Health and Safety
- Access to Energy
- Engagement with Communities and Stakeholders
- Employment, Training and Education
- Diversity, Equality and Inclusion
- Human Rights

# Our ESG Goals

## In developing our ESG strategy, we have committed to the following ESG goals.

| Goal | Goal year |
|---|---|
| **Caring for the environment** | |
| Have zero operational spills annually in our owned facilities | **2022** |
| Recycle more than two-thirds of our waste in our direct operations (excluding acquired businesses, suppliers or partners) | **2025** |
| Have zero hazardous contaminants in discharges to water annually in our direct operations | **2022** |
| Achieve net zero office-based GHG emissions in our facilities | **2025** |
| Halve methane emissions from our direct operations, compared to 2021 | **2025** |
| Achieve zero methane emissions from our direct operations | **2030** |
| Halve GHG emissions from our direct operations, compared to 2021 | **2030** |
| Achieve net zero GHG emissions from our direct operations | **2050** |
| Invest in carbon capture or offset to support the UK's and Netherlands' net zero ambitions | **2025** |
| Have an ongoing net positive impact on biodiversity throughout our direct operations | **2025** |
| Achieve ISO 14001 certification for our operated sites | **2025** |

| Goal | Goal year |
|---|---|
| **Creating safe, respectful workplaces** | |
| Keep our employees and contractors safe and well, with a goal of zero harm to people annually in our direct operations | **2022** |
| Establish a diversity and inclusion strategy for employees in our direct operations | **2024** |
| Achieve gender pay parity in our direct operations | **2025** |
| Have more than 30% of senior leadership roles in our direct operations held by women | **2030** |
| Ensure that historically underrepresented ethic groups account for more than 20% of all permanent employees in our direct operations | **2030** |
| Review our policies to ensure equality and equity for all in our direct operations | **2022** |
| **Operating ethically and responsibly** | |
| Provide all permanent employees in our direct operations with training on our Code of Ethics | **2024** |
| Gain ISO 37001 anti-bribery management systems certification for our operated sites | **2025** |
| Update our security guidelines against the latest ISO standards for our owned business | **2025** |

# ESG Outlook and Non-Financial Performance

## Environment

### Acting on climate change

We believe that natural gas has an important role to play in the energy transition, bridging the gap on the journey from fossil fuels to a renewable, zero-carbon future. To that end, we continue to explore ways to produce gas with a very low carbon footprint in an environmentally benign way.

### Direct emissions and air quality

Our Scope 1 emissions levels are minimal thanks to the solar panels and wind turbines that power the Q10-A platform. In 2021, we estimate the Scope 1 emissions related to our activities offshore the Netherlands were less than 0.01 kg $CO_2$e/boe excluding flaring. Including flaring undertaken during our drilling campaign, the figure is estimated to be 0.64 kg $CO_2$e/boe. Including Scope 2 emissions, which relate primarily to the combustion of gas in compressors on the P15-D platform that Q10-A is tied back to, we estimate the comparable figures were 11.0 kg $CO_2$e/boe and 11.7 kg $CO_2$e/boe respectively.

We have also implemented a program to identify and prevent methane leaks from our operations with annual inspections, exceeding the four-year inspection requirement.

### Operational energy use

Our Q10-A platform is unmanned and is powered sustainably using solar energy and wind turbines. Compared to using diesel generators, Kistos estimates this saved over 15,000 tonnes of $CO_2$ emissions. Similarly, the Company estimates that its policy of conducting offshore visits via boat rather than helicopter saved more than 25,000 tonnes of $CO_2$ emissions.

### Spills and incidents

We have robust processes in place to prevent major accidents and avoid spillages at sea, as well as clearly defined mitigation and clean-up procedures should an unexpected incident occur. Until we have developed a 'no flaring' policy, we limit gas flaring as much as is practicable.

### Effluents and waste

We have strict guidelines in place preventing the use of certain chemicals and materials that are considered harmful to the environment.

### Biodiversity

We employ people to watch bird migrations and inform us when flaring can be conducted safely without affecting local wildlife. We also limit the ultrasonic sounds from our operations to prevent harm to local marine life and take specialist advice to keep seals away from our platforms.

## Social

### Health and safety

Having incorporated third-party contractors into our safely culture, our HSE performance remains strong. We had no Lost Time Injuries in 2021, despite undertaking more than five months of drilling and testing operations. In addition, the strict protocols and rigorous testing procedures we have in place to keep our employees and contractors safe have ensured that our operations have not been disrupted by COVID-19.

### Employment

As a result of policies brought in during the pandemic, we now have a more flexible working environment for all employees. However, we remain mindful of the need for direct interactions and networking to support the professional development of our people.

2021 ESG Outlook and Non-Financial Performance

### Diversity, equality and inclusion

Diversity, equality and inclusion (DEI) are important to us. We have a roughly 70:30 male/female split across our workforce and we aim to enhance our approach to equality and equity across our business by developing a corporate DEI strategy.

### Stakeholder engagement

As well as ongoing dialogue with our employees and contractors, partners, suppliers and investors, all our activities require the involvement of the Dutch authorities and the regulator, the State Supervision of Mines (SodM). We also work closely with and report to the Netherlands Oil and Gas Exploration and Production Association (NOGEPA), which represents the interests of extractive companies operating in the Netherlands.

Other important stakeholder groups include the coastal communities who live near our operations, listings agencies such as AIM and the Financial Conduct Authority (FCA), and the coastguards who patrol the waters in which our offshore assets are situated.

## Governance

### Governance

The Board is responsible for setting the Company's strategic aims, defining the business plan and strategy, and managing Kistos' financial and operational resources. Overall supervision, acquisition, divestment and other strategic decisions are determined by the Board. In conjunction with other Executive Directors, our Executive Chairman is charged with day-to-day responsibility for the implementation of the Company's strategy.

### Risk management

Kistos identifies, assesses and manages the risks critical to its success. Overseeing these risks benefits the Group and protects its business, people, and reputation. We use the risk management process to provide reasonable assurance that the risks we face are recognised and controlled. This approach enables the organisation to achieve its strategic objectives and create value.

### Ethics, anti-corruption and bribery

We foster a culture that promotes ethical and responsible behaviour. We also work in locations where bribery and corruption are unlikely but nevertheless, we remain vigilant to the risk.

### Funding and investment

Management regularly reviews the Group's cash forecasts and its covenants to ensure an adequate headroom of cash availability. Each project has a clear delivery framework with a responsible project lead. Delivery against the project objectives, timeline and cost are regularly monitored. Risks being faced are discussed and where appropriate risk mitigation steps implemented.

### Procurement practices and sustainability of suppliers

We treat suppliers equally, without discrimination, promoting a 'one-team' culture. Where applicable, we work with suppliers prequalified for oil and gas operations. Kistos ensures any risks and costs borne by suppliers undertaking activities that support our business are proportional to the scope of the work.

### Economic performance

Price volatility is both an opportunity and a risk to our business. While we benefit financially from the current rise in the price of gas, we still need to consider the wider impacts in terms of fuel poverty, the effect on manufacturing and the fertiliser industry.

### Operations in sensitive or complex locations

The Group manages such risks in the context of upcoming developments through engagements with stakeholders. Where necessary alternative options are also considered to allow for risk mitigation. External consultants with experience in managing these developments are employed to help complement the existing team skills.

Section 172

# Stakeholder Engagement

## We understand the importance of considering stakeholders in long-term decision making and we engage with various stakeholder groups in support of the ethos of Section 172 of the Companies Act.

Kistos Directors act in a way that they consider, in good faith, to be most likely to promote the success of our Company for the benefit of all our stakeholders.

This includes considering the interests of our employees, maintaining high standards of business conduct, strengthening relationships with our partners, and considering our impacts on local communities and the environment.

Section 172 specifies that the Directors must act in good faith when promoting the success of the Company and have regard (amongst other things) to the following:

- The likely long-term consequences of any decision;
- The interests of employees;
- The need to foster business relationship with suppliers, customers and others;
- The impact of the Company's operations on the community and environment;
- The desirability of maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members.

The Board of Directors is collectively responsible for the decisions made towards the long-term success of the Company. The way in which the strategic, operational and risk management decisions have been implemented throughout the business is detailed in this Strategic Report.

### Key Board Decisions

During 2021, the Board of Directors approved the acquisition of TON from Tulip Oil Holding B.V. It did so after a thorough evaluation of TON's assets led to the conclusion that the transaction was in the best interests of Kistos' shareholders and was also consistent with the Company's strategy of buying assets with a role in the energy transition.

To minimise dilution to existing shareholders while maintaining an appropriate level of gearing, the Board of Directors decided to issue €150MM of Nordic Bonds to help finance the transaction. €90MM of these were issued to refinance an existing €87MM bond issued by a subsidiary of TON, while the remaining €60MM was issued to Tulip Oil Holding B.V.

### Engaging With Our Stakeholders

We regularly engage with stakeholders to inform decision making and support the Board's understanding of how our activities impact on them. Our materiality assessment (see page 17), which helped us to identify the ESG issues that are most important to the Company and our stakeholders, is a good example of this process at work.

### Employees

Our employees are a significant asset to our business. The Board engages with employees to understand how we can ensure Kistos is a great place to work. Travel restrictions permitting, the Executive Directors regularly visit our main office in The Hague to engage with employees and facilitate two-way communications. During periods when travel has not been possible or practical, regular video calls have been conducted with senior team members in the Netherlands.

We seek to ensure that:

- There is a mindset of continuous improvement to achieve the Company's vision and goals;
- Health, Safety and the Environment are considered paramount throughout the organisation;
- Remuneration reviews are undertaken. This aids retention of the skills critical to the business by verifying employees at all levels are being treated fairly, and that pay and benefits are competitive;
- There is ongoing training and development and that career advancement is achievable;
- That the Company's policies and procedures are freely available;
- Personal development reviews and work appraisals are conducted;
- Employees are informed of the results and important business decisions and are encouraged to engage with management; and
- Working conditions are favourable.

### Partners and Suppliers

Kistos works closely with joint operation partners to deliver solutions for asset safety, integrity and field life. We collaborate with our partners to develop risk mitigation strategies for any delays or instances of underperformance in our operations.

We engage regularly with partners to share knowledge, offer support and use our influence to establish best practices. Senior management prepare for and attend Technical Committee Meetings and Operating Committee Meetings (TCMs and OCMs) to advise on material decisions, together with Board representatives. Looking forward, on completion of the acquisition of certain interests in the GLA offshore the UK, Kistos will engage fully with the operator of those assets to ensure that it has a complete understanding of their performance.

Stakeholder Engagement

## Governments and Regulators

We seek to build strong, transparent relationships with host governments and regulatory authorities. We comply with all relevant legislation in the areas where we have our operations and disclose all necessary information. Kistos engages with SodM in the Netherlands to provide updates on the business and development activity. The Group's external advisors provide advice in respect of changes to legislation or regulation and advise the Board directly.

We are also a member of the Netherlands Oil & Gas Exploration & Production Association (NOGEPA), which works with regulatory bodies and the Dutch government on issues that impact the oil and gas industry.

## Community and Environment

Kistos recognises and is aware of the potential impact that it may have on the environment and the communities it serves. With that in mind, in our first year of operation, we have undertaken an ESG materiality study and formulated an ESG strategy. More details regarding these initiatives can be found on pages 17 to 21.

## Maintaining High Standards of Business Conduct

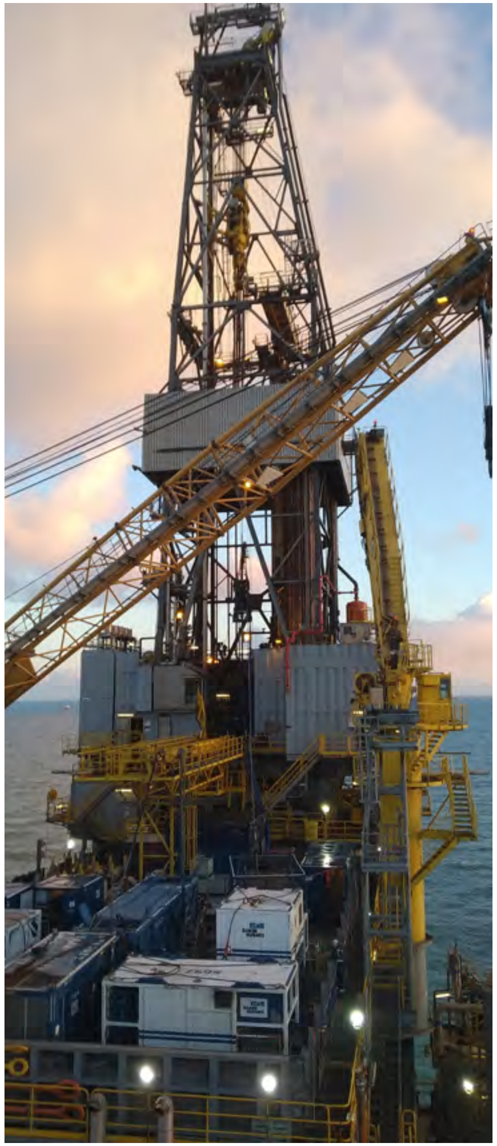
Kistos plc is incorporated in the UK and governed by the Companies Act 2006. The Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the 'QCA Code') and the Board recognises the importance of maintaining a good level of corporate governance, which together with the requirements to comply with the AIM Rules ensures that the interests of the Company's stakeholders are safeguarded. The Board requires ethical behaviour and business practices to be implemented throughout the business. Our anti-bribery statement and policy is provided on the Company's website (www.kistosplc.com). The Company's expectation of honest, fair and professional behaviour is reflected by this and there is zero tolerance for bribery and unethical behaviour by anyone representing the Company.

The importance of making all employees feel safe in their environment is maintained and a Whistleblowing Policy is in place to enable staff to confidentially raise any concerns freely and to discuss any issues that arise. Strong financial controls are in place and are well documented. The Board regularly considers the key business risks and a risk matrix is maintained.

## Shareholders and Bondholders

We have responsibilities as a listed company on the London Stock Exchange with bonds listed on the Oslo Bors. The investor section of Kistos' website serves as our primary method for shareholder and bondholder communication. Here, we publish our reports, financial results, investor presentations, share price updates and regulatory news announcements. Regular dialogue is maintained with investors and analysts through meetings, conferences, and presentations.

Shareholder and bondholder engagement is the responsibility of the Executive Chairman, Chief Executive Officer, and Chief Financial Officer. They are also responsible for ensuring other Board members are fully briefed on shareholder and bondholder discussions from investor days and fund manager meetings. More formally, the Board engages with shareholders at the Annual General Meeting.



Principal board decisions

# Principal Risks and Uncertainties

## Kistos Identifies, Assesses and Manages the Risks Critical to Its Success

Overseeing these risks benefits the Group and protects its business, people, and reputation. We use the risk management process to provide reasonable assurance that the risks we face are recognised and controlled. This approach enables the organisation to achieve its strategic objectives and create value. The principal risks and uncertainties of the Group relate to the following:

### Growth of Reserve Base

The Group needs to identify new reserves and resources to ensure continued future growth and does so through development and acquisition. The Group may fail to identify attractive acquisition opportunities or may select inappropriate drilling targets.

The long-term commodity price forecast and other assumptions used when assessing potential projects and other investment opportunities have a significant influence on the forecast return on investment and, if incorrectly estimated, could result in poor decisions.

The Group's investment strategy prioritises investment in the North-West Europe and across a mix of producing, development, and appraisal projects. A rigorous assessment process evaluates and determines the risks associated with all potential business acquisitions and strategic alliances, including conducting stress-test scenarios for sensitivity analysis. Each assessment includes an analysis of the Group's ability to operate in a new jurisdiction.

### Operational Performance

The Group's production volumes (and therefore revenue) are dependent on the performance of its producing assets. The Group's producing assets are subject to operational risks including no critical spare equipment or plant availability during the required plant maintenance or shutdowns; asset integrity and health, safety, security, and environment incidents; and low reserves recovery from the field and exposure to natural hazards such as extreme weather events.

### Reputation

The reputational and commercial exposures to a major offshore incident, including those related to an environmental incident, or non-compliance with applicable law and regulation are significant. All activities are conducted in accordance with approved policies, standards, and procedures. The Group requires adherence to its Code of Conduct and runs compliance programmes to provide assurance on conformity with relevant legal and ethical requirements.

### Commodity Prices

The Group's results are heavily dependent on natural gas prices, which are dependent on several factors including the impact of climate change concerns, COVID-19, and regulatory developments. The Group will regularly review and implement suitable policies to hedge against the possible negative impact of changes in gas prices to protect its investment strategy.

### Decommissioning Cost Estimates and Timing

The estimated future costs and timing of decommissioning is a significant estimate; any adverse movement in price, operational issues and changes in reserves and resource estimates could have a significant impact on the cost and timing of decommissioning. The Group mitigates this risk through the specialist decommissioning experience in its team, coupled with a continued focus on delivering asset value to maximise field life.

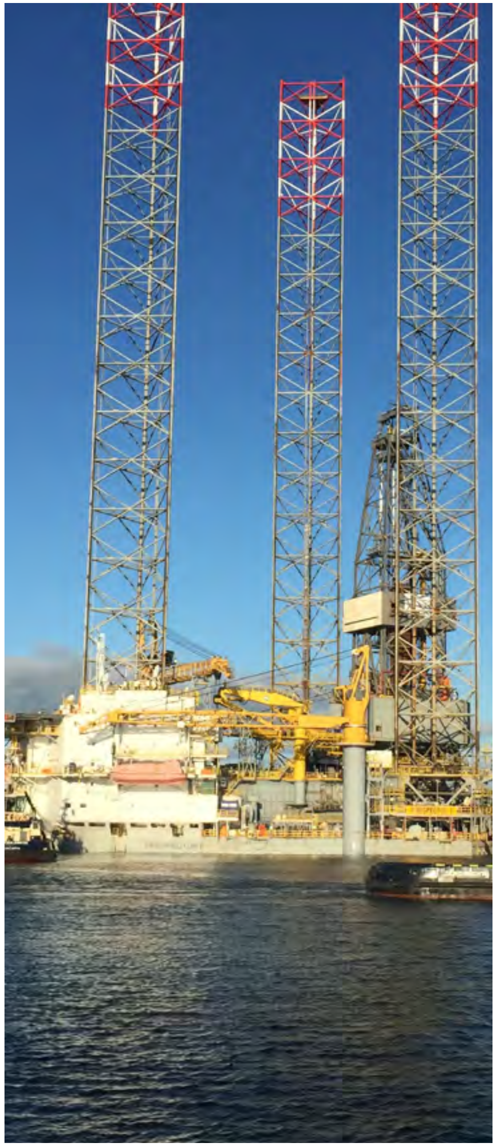
### Cyber Security

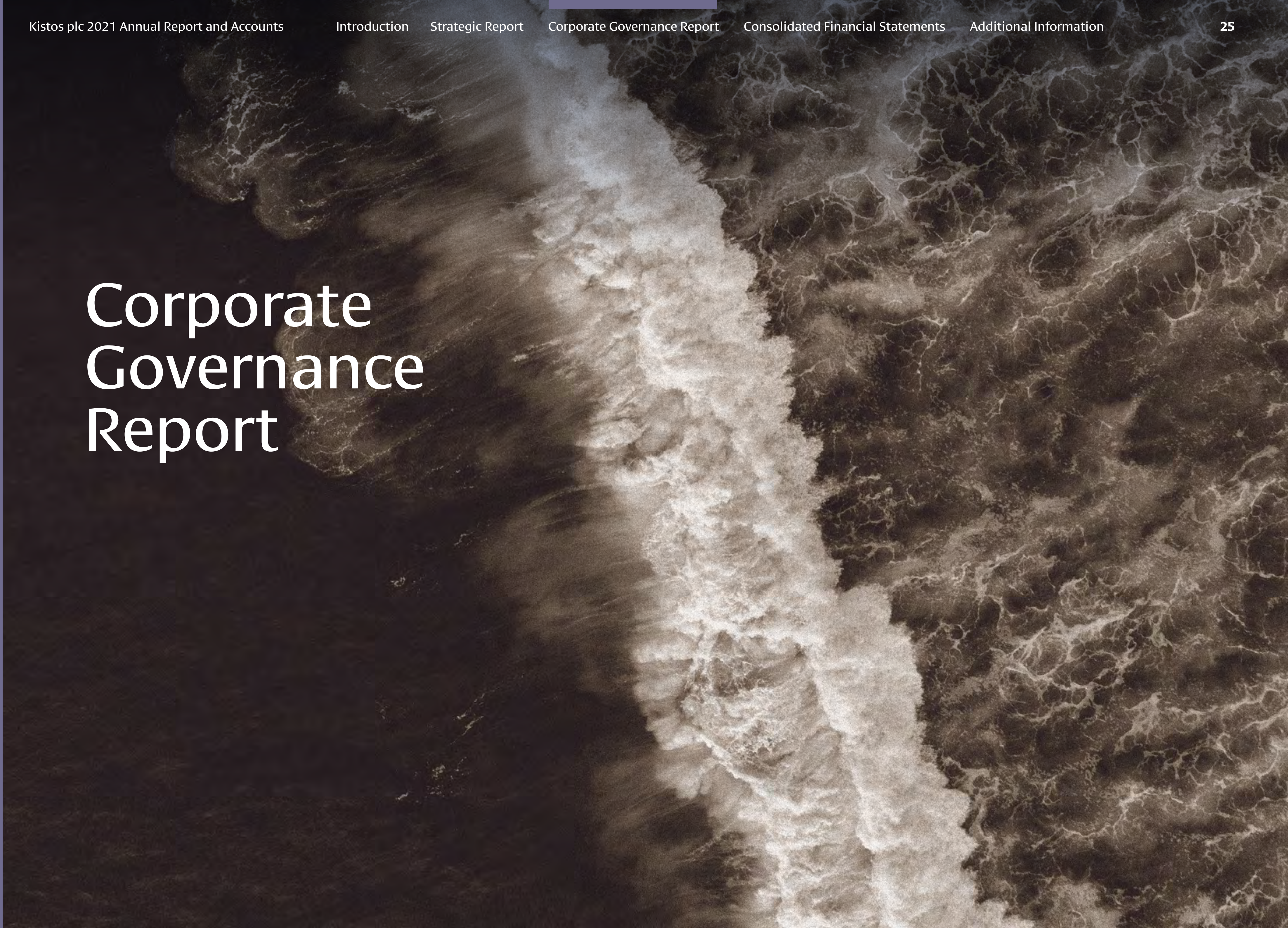
Breaches in, or failures of, the Group's information security management could adversely impact its business activities. The Group's information security management model is designed with defensive structural controls to prevent and mitigate the effects of computer risks. It employs a set of rules and procedures, including a Disaster Recovery Plan, to restore critical IT functions.

### COVID-19

Operational restrictions placed on the Group and its supply chain because of the spread of COVID-19 could lead to shutdowns and/or delays in obtaining critical equipment for capital projects. To date, the Company has not experienced any material adverse impact on its operations because of COVID-19. The precautionary and contingency measures that have been put in place, particularly in relation to our 2021/2022 drilling campaign have worked well.

This strategic report was approved by the Board of Directors and signed on its behalf by:
Andrew Austin
Executive Chairman
6 April 2022





# Corporate Governance Report

# Chairman's Introduction

## The Board has established the corporate governance values of the Company and has overall responsibility for setting the Company's strategic aims, defining the business plan and strategy, and managing the financial and operational resources of the Company.

**Andrew Austin**
Executive Chairman

Overall supervision, acquisition, divestment and other strategic decisions are considered and determined by the Board. Andrew Austin, in addition to acting as Executive Chairman and in conjunction with the other Executive Directors, is charged with the day-to-day responsibility for the implementation of the Company's strategy. The Executive directors are supported by the wider team and external service providers as required.

The Board complies with the QCA Corporate Governance Code on the basis it is most suited to our requirements, size, strategy, resources, and stage of development. It offers a flexible but rigorous framework that allows Kistos to continue to develop its governance model in support of the business. The QCA Code requires us to apply the following principles:

1. Establish a strategy and business model that promotes long-term value for shareholders.
2. Seek to understand and meet shareholder needs and expectations.
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.
5. Maintain the Board as a well-functioning, balanced team led by the chair.
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement.
8. Promote a corporate culture that is based on ethical values and behaviours.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.
10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

2021 was another challenging year, as COVID-19 continued to have an impact on economies and businesses across the globe. The Board was united in working to ensure that the Company delivered for its shareholders while maintaining high standards of employee welfare, safety, corporate governance, and a commitment to the environment.

Building and maintaining strong relationships with our shareholders is critical to the success of the business. The Board seeks to ensure that it engages regularly with investors. In 2021, this included on-to-one meetings with larger investors, attendance at conferences and interviews that were made available to all investors online.

As at the date of this document, the Board has adopted the policies and procedures to comply with applicable market abuse legislation, including a share dealing code (Share Dealing Code) on the dealing in securities of the Company by Directors, Senior Managers, and employees. The Board is responsible for taking all proper and reasonable steps to ensure compliance with the Share Dealing Code by the Directors, Senior Managers and employees of the Company.

Signed on behalf of the Board of Directors by:

**Andrew Austin**
Executive Chairman
6 April 2022

# Statement of Compliance

## Board Composition

As of 31 December 2021, the Board comprised the Executive Chairman, Chief Executive Officer, Chief Financial Officer and three Non-Executive Directors. All of the Non-Executive Directors are considered independent. The Company has Disclosure, Nomination, Audit and Remuneration Committees.

The minimum qualifications for serving as a member of the Board of Directors (the Board and each member of the Board, a Director) of Kistos plc (Kistos) are that a person demonstrates, by significant accomplishment in his or her field, an ability to make a meaningful contribution to the Board's oversight of the business and affairs of Kistos and that a person has an impeccable record and reputation for honesty and ethical conduct in both his or her professional and personal activities.

In addition, nominees for Director shall be selected based on, among other things, experience, knowledge, skills, expertise, diversity, ability to make independent analytical inquiries, understanding of Kistos' business environment and willingness to devote adequate time and effort to Board responsibilities.

## Board Committees and Structure

The Board has three Committees as follows:

- Nomination Committee
- Audit and Disclosures Committee
- Remuneration Committee

All Committees operate under clearly defined terms of reference to ensure proper functioning and effective application of best practice. Committees are required to report back to the Board following a Committee meeting.

More information regarding each Committee can be found on pages 32 to 36.

## Board Objectives/Activities

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions. The effectiveness of the Board, director and senior management appointments and the Company's succession planning is evaluated on a regular basis.

## Principle 1: Strategy and Business Model

The Group's strategy and business model is described in the Strategic Report on pages 6 to 24.

## Principle 2: Shareholder Needs and Expectations

The Company engages with shareholders at the Annual General Meeting, after the announcements of results, and after the announcements of significant operational events or transactions. It also regularly presents at investor events. During 2021, the Company engaged with stakeholders through a combination of online forums and face-to-face meetings when circumstances allowed.

## Principle 3: Wider Stakeholder and Social Responsibilities

Kistos seeks to be a responsible corporate citizen in all its areas of operation and is committed to maintaining a high standard of corporate governance. In 2021, the Company undertook its inaugural ESG materiality assessment, to identify and prioritise the issues related to sustainability and responsible business. Further details of this are on pages 17 to 21.

## Principle 4: Risk Management

The Board provides leadership within a framework of prudent and effective controls. The Board established the corporate governance values of the Company and has overall responsibility for setting the Company's strategic aims, defining the business plan and strategy, dividend policy and managing the financial and operational resources of the Company as well as the review and approval of the Company's financial statements.

The Company has an established code of conduct and set of values that have been communicated to all employees. The Board acknowledges that it is responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The procedures that include, inter alia, health and safety, financial, operational, compliance matters and risk management (as detailed in the Strategic Report) are reviewed on an ongoing basis.

## Statement of Compliance

The Group's internal control procedures, which were recently reviewed as part of the Financial Policies and Procedures Prospectus (FPPP), include the following:

- Board approval for all significant projects, including corporate transactions and major capital projects.
- The Board receives and reviews regular reports covering both the technical progress of projects and the Group's financial affairs to facilitate its control.
- There is a budgeting and planning system for all items of expenditure with an annual budget approved by the Board. Risk assessment and evaluation is an integral part of the annual planning cycle.
- The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated financial statements. These systems include policies and procedures to ensure that adequate accounting records are maintained, and transactions are recorded accurately and fairly to permit the preparation of consolidated financial statements in accordance with IFRS; and
- The Audit Committee reviews draft annual and interim reports before recommending their publication to the Board. The Audit Committee discusses with the Executive Directors and external auditors the significant accounting policies, estimates and judgements applied in preparing these reports.

The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has considered the need for a separate internal audit function but, bearing in mind the present size and composition of the Group, does not consider it appropriate at the current time.

### **Principle 5:** Board Balance

The Board continues to assess the diversity and tenure of its members and those of the senior management team. All of the Non-Executive Directors are considered to be independent.

### **Principle 6:** Board Skills and Experience

The Board, collectively, has significant experience in the North Sea oil and gas, exploration, development and production sector. The Directors have also consummated at least 12 significant acquisitions, and planned and executed three farm-out transactions with energy majors as counterparties.

The Directors are very familiar with the key issues facing both offshore and onshore exploration and development activity. The Board has in aggregate more than 60 years of experience in subsurface engineering and geology and has been responsible for running complex and challenging fields and drilling operations, both offshore and onshore.

In addition, the Board has significant expertise and experience of dealing with the political and social issues facing the industry at both the local and national governmental levels, both in the UK and overseas.

### **Principle 7:** Board Performance

The Chairman has a responsibility to lead the Board effectively and to oversee the adoption, delivery and communication of the Company's corporate governance model. It is imperative that the relationship between the Chairman and other Board members is collaborative and cordial but robust. The Board members work together in the best interests of the Company, while remaining comfortable to engage in rigorous and constructive debate. There is a strong flow of communication between the Directors and, in particular, between the Chairman and other Executive Directors.

The Directors have a wide knowledge of the Company's business and understand their duties as Directors of a company quoted on AIM. The Directors have access to the Company's Nominated Advisor (Nomad), auditors and solicitors as and when required. These advisors are able to provide formal support and advice to the Board from time to time and do so in accordance with good practice. The Directors are also able, at the Company's expense, to obtain advice from external advisors if required.

Further details of the Directors' skills and experience can be found in their biographies on page 39.

### **Principle 8:** Corporate Culture

The Company's strategy to promote an ethical corporate culture is described in the '2021 ESG Outlook and Non-Financial Performance' section of this report on pages 20 to 21.

## Statement of Compliance

### **Principle 9:** Governance Structures and Processes

Kistos' Directors acknowledge the importance of corporate governance, believing that the QCA Code provides the Company with a framework to provide an appropriate level of governance.

The Board is accountable for good governance and maintains control over the Company. Kistos holds regular Board meetings at which financial, operational and other reports are considered and voted on. The Board is responsible for strategy, operational performance, financial performance, approval of major capital expenditure and internal controls.

There is an organisational structure with lines of responsibility and delegation of authority to executive management. The Board is responsible for monitoring the activities of the executive management. The Board has three independent Non-Executive Directors, with Alan Booth acting as the Senior Independent Director. The Chairman ensures the Board discharges its responsibilities and is also responsible for facilitating full and constructive contributions from each of the Directors in determination of Kistos strategy and objectives.

The Company is committed to a corporate culture that embraces equal opportunity, diversity, social responsibility, safety and a commitment to the environment. The Directors seek to instil these values throughout the Company. Kistos promotes this commitment through statements on its website, in its Annual Report & Accounts, and through its direct communications with employees and other stakeholders.

The Company has adopted a share dealing code, which the Board regards as appropriate for an AIM listed company and is compliant with the UK Market Abuse Regulations. The Company takes all reasonable steps to ensure compliance by the Directors, employees and agents with the provisions of the AIM rules relating to dealings in securities.

The Directors acknowledge the importance of ensuring that the Company and its stakeholders operate within the requirements of the UK Bribery Act. The Company has a zero-tolerance approach to bribery and corruption and has adopted an anti-bribery policy to protect itself, its employees and other parties with which it engages.

### **Principle 10:** Communication

The Board recognises the benefits of engaging with shareholders and stakeholders, and to ensure this happens, meets regularly to update them with the activities of the Company. Details of who our stakeholders are and how we engage with them can be seen on pages 22 to 23.

In addition, the Company's financial and operational performance is summarised in the Annual Report and the Interim Report. Other updates are provided throughout the year through press releases and regular updates to the Company's website.

### Board Meetings

**Meetings attended:**

- Andrew Austin 6/6
- Peter Mann 1/1
- Richard Slape 1/1
- Richard Benmore 6/6
- Alan Booth 6/6
- Julie Barlow 5/6

### Time Commitments

The Board should ensure that any members appointed have sufficient time available to function effectively and efficiently for the benefit of the shareholders.

### Succession Planning

The Nominations Committee reviews the composition of the Board with a view to ensuring that its members have a combination of skills and experience that fits with the future of the Company and, within these criteria, promotes gender and ethnic diversity.

# Directors' Report

The Directors present the audited consolidated financial statements of the Group for the year ended 31 December 2021.

## Principal Activities and Status

The Group's principal area of activity is the acquisition of companies or businesses in the upstream oil and gas sector.

## Dividends

The Directors did not pay an interim dividend and have not proposed a final dividend.

## Post-Balance Sheet Events

Post-balance sheet events are included in Note 35.

## Political Donations

The Group made no political donations during the year.

## Charitable Donations

The Group did not make any charitable donations during the year.

## Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

- Andrew Austin (Executive Chairman)
- Peter Mann (Chief Executive Officer, appointed 14 October 2021)
- Richard Slape (Chief Financial Officer, appointed 14 October 2021)
- Alan Booth (Non-Executive Director)
- Julie Barlow (Non-Executive Director)
- Richard Benmore (Non-Executive Director)

## Directors' Indemnities and Insurance

Subject to the conditions set out in the Companies Act 2006, the Company has arranged appropriate Directors & Officers insurance to indemnify the Directors and Officers against liability in respect of proceedings brought by third parties. Such provision remains in force at the date of this report.

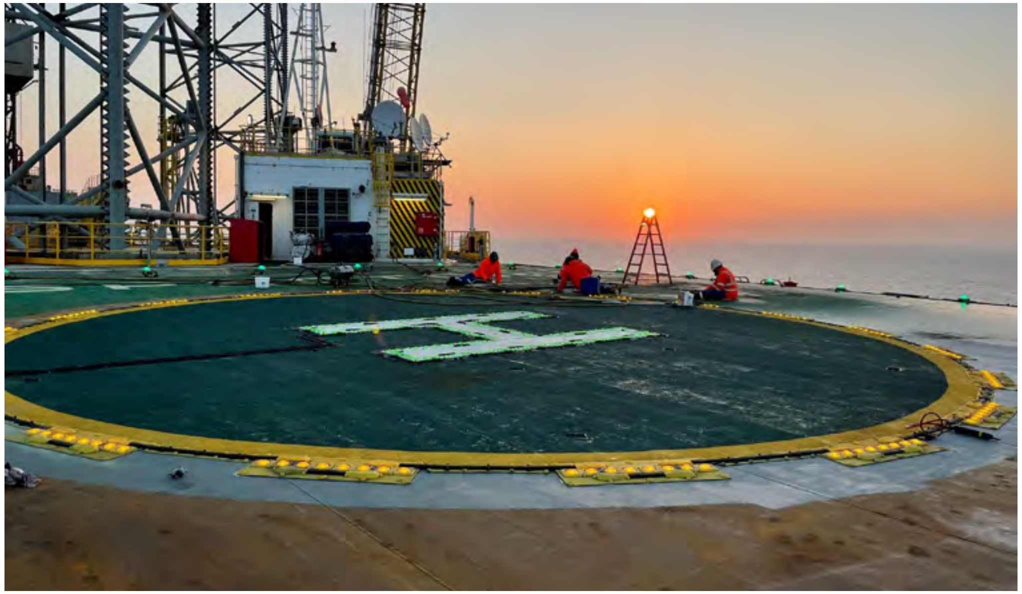
The Company indemnifies the Directors against actions they undertake or fail to undertake as Directors or officers of any Group company, to the extent permissible for such indemnities to meet the test of a qualifying third-party indemnity provision as provided for by the Companies Act 2006. The nature and extent of the indemnities is as described in Section 154 of the Company's Articles of Association as adopted on 11 November 2020. These provisions remained in force throughout the year and remain in place at the date of this report.

## Substantial Shareholdings

As at 6 April 2022, in addition to the Directors' interests as set out in the Remuneration Report, the Company had received notification from the following institutions and individuals of interests more than 3% of the Company's issued ordinary shares with voting rights:

| Holder | Number | Interest |
|---|---|---|
| Tulip Oil Holding B.V. | 8,742,775 | 10.55% |
| Schroder Investment Management | 7,741,936 | 9.34% |
| Canaccord Genuity Wealth | 4,620,970 | 5.58% |
| Investec Wealth & Investment Limited | 4,160,700 | 5.02% |
| Fidelity Worldwide Investment | 4,071,962 | 4.91% |
| Chelverton Asset Management | 3,250,000 | 3.92% |
| Trium Capital LLP | 3,219,035 | 3.88% |

The Company is not a close company as defined in the Income and Corporation Taxes Act 1988. The Company is incorporated, domiciled, and registered in the United Kingdom.



**Directors' Report**

## AGM Notice

Notice of the forthcoming Annual General Meeting will be advised separately.

## Independent Auditors

The Audit Committee continue to review the external auditors' independence and consider the nature, scope, and results of the auditors' work. The Committee recommends that BDO LLP be reappointed as auditor of the Company at the forthcoming AGM.

As required under s418(2) of the Companies Act the directors have ensured that all relevant information has been provided to the auditors and that the directors have taken steps to ensure they are aware of all relevant audit information and passed this onto the auditors.

## Information Included in the Strategic Report

The Strategic Report is set out on pages 1 to 24 and includes a comprehensive review of the business and the future developments of the Group.

Other disclosures required by the Companies Act 2006 have been included in the Strategic Report as follows:

- Page 24 – the Group's financial risk management objectives and policies
- Pages 20 to 23 – details on being a responsible business including employee engagement, how the Company works with the community and policies relating to the environment, including GHG emissions
- Page 22 – Stakeholder Engagement
- Page 23 – Business conduct including anti-slavery and the UK Bribery Act
- Page 59 – Events occurring after the reporting period
- Page 11 – Acquisitions

Details of any long-term incentive schemes can be found within the Remuneration Report on pages 32 to 34.

## Corporate Governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 26 to 29.

### Going Concern

The total available liquidity at 31 December 2021 for the Kistos Group was €77.3m in cash and cash equivalents, and from May 2021, when the Group acquired Tulip Oil Netherlands Offshore B.V., the Group has generated €48MM of cash from operating activities.

To assess the Group's and the Parent Company's ability to continue as a going concern, management has prepared base case and downside cash flow forecasts to 31 December 2023. These forecasts have considered the recently announced 20% acquisition of TotalEnergies interest in the Greater Laggan Area (GLA) West of Shetland for US$125m (with additional contingent considerations that may be payable in January 2023). This is planned to be funded through internally generated cash resources. This transaction, which is subject to customary regulatory and partner consents, is envisaged to complete in Q2 2022. The effective date of the transaction is 1 January 2022.

Management's base case cash flow forecast assumes:

- Production between 1 January 2022 and the acquisition date is offset against the acquisition price.
- Q10-A and TotalEnergies future production is in line with forecast, and future sales are priced at the ICIS forward gas curve.
- Gross acquisition consideration of US$125MM is paid in June 2022 and Debt Service Obligations of €16.5MM in respect of asset retirement obligations are paid into Escrow.

This forecast shows that minimum covenant liquidity and leverage covenants under the bond are complied with in all periods.

Management has also prepared downside cash flow forecasts. This has focused on the pinch point for cash, which is when the consideration for the TotalEnergies acquisition is paid in Q2 2022. This shows if no further cash was generated or costs incurred for TotalEnergies or Q10-A after March 2022, there would be no breach of the liquidity or leverage covenants.

Management has also performed a reverse stress test, which showed that either a reduction in sales volumes or price of greater than 67% for the remainder of the forecast period, with all other factors held constant, would result in the liquidity covenant being breached in June 2023.

Accordingly, the Directors have concluded that these circumstances form a reasonable expectation that the Group has adequate resources to continue in operational existence, for the foreseeable future. For these reasons, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

This report was approved by the Board of Directors on 6 April 2022 and signed on its behalf by:

**Andrew Austin**
Executive Chairman
6 April 2022

# Remuneration Committee Report

## Overview

The Committee comprises only Non-Executive Directors, being chaired by Alan Booth and having as its other member Julie Barlow. The Committee met three times in the period ended 31 December 2021. The Executive Chairman was also invited to attend these meetings. In accordance with the Committee's terms of reference, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

## Summary of the Committee's Responsibilities

The Committee's responsibilities include the following:

- Making recommendations to the Board of Directors on the Company's policy on the remuneration of the Executive Chairman, Executive Directors and other Senior Managers (as are delegated to the Committee to consider);
- Determining, within agreed terms of reference, the remainder of the remuneration packages for each of them, including pension rights, bonus arrangements, any compensation payments and the implementation of executive incentive schemes;
- Monitoring the level and structure of remuneration for senior management; and
- Reviewing the design of proposed share incentive plans for approval by the Board and determining the policy on annual awards to Executive Directors and Senior Managers.

## Key Areas of Focus in the Year Ended 31 December 2021

The Committee's particular areas of focus during the year were as follows:

- Reviewing a proposed share option incentive scheme for all employees including the subsidiaries;
- Reviewing the Executive Chairman's and Senior Managers' salaries and bonus arrangements for the year; and
- Agreement of bonus principles for senior employees.

## Chairman's Statement

The Directors are pleased to present their Annual Report on Remuneration for 2021. The aim of the Remuneration Committee is to set clear objectives for each individual Executive Director and Executive team member, taking into account where an individual has particular influence and responsibility.

During the period the Executive Chairman's salary increased from £36,000 to £300,000 with Non-Executive Directors' salaries remaining unchanged in Pound Sterling at £36,000 each. The Committee decided that whilst it has a general framework for targets, it was not appropriate to set specific targets for 2021, and will not set specific targets for 2022 either, as the Company is still in an active acquisition mode and was looking to ensure that the management team focus on evaluating and pursuing further development and acquisition opportunities throughout the year.

## Directors' Remuneration Policy

The Company's policy is to maintain levels of remuneration sufficient to attract, motivate and retain senior executives of the highest calibre who can deliver growth in shareholder value. Executive Directors' remuneration currently consists of basic salary, benefits (including pensions allowance), and bonus. Long-term incentives will be introduced in line with the Company's expansion. The Company continues to seek to strike an appropriate balance between fixed and performance-related rewards so that the total remuneration package is structured to align a significant proportion to the achievement of performance targets, reinforcing a clear link between pay and performance.

The performance targets for staff, senior executives and the Executive Directors continue to be aligned to the key drivers of the business strategy, thereby creating a strong alignment of interest between staff, Executive Directors and shareholders.

The Remuneration Committee will continue to review the Company's remuneration policy and make amendments, as and when necessary, to ensure it remains fit for purpose and continues to drive high levels of executive performance and remains both affordable and competitive in the market.

## Remuneration Committee Report

# Policy Table

### Element of Reward – Base Salary

| | | |
|---|---|---|
| Purpose and link to strategy | To provide fixed remuneration to:<br>• help recruit and retain key individuals; and<br>• reflect the individual's experience, role and contribution within the Company. | |
| Operation | The Remuneration Committee takes into account a number of factors when setting salaries, including:<br>• scope and complexity of the role;<br>• the skills and experience of the individual;<br>• salary levels for similar roles within the industry; and<br>• pay elsewhere in the Company. | Salaries are reviewed, but not necessarily increased, annually with any increase usually taking effect in January. |
| Performance conditions | None | |
| Maximum opportunity | The current base salary of the Directors can be found in the Directors' Remuneration section. Salary increases are normally made with reference to the average increase for the wider Company. The Board retains discretion to make higher increases in certain circumstances, for example, following an increase in the scope and/or responsibility of the role or the development of the individual in the role or by benchmarking. | |

### Element of Reward – Other Benefits

| | |
|---|---|
| Purpose and link to strategy | To provide a basic benefits package, in order to help recruit and retain key individuals. |
| Operation | The Company provides Executive Directors with medical insurance for themselves and their family. |
| Performance conditions | None |
| Maximum opportunity | Maximum opportunity will be the expense of providing the benefit. |

### Element of Reward – Annual Bonus

| | |
|---|---|
| Purpose and link to strategy | To incentivise and reward the achievement of annual financial, operational and individual objectives which are key to the delivery of the Company's short-term strategy. |
| Operation | • The Remuneration Committee will determine on an annual basis the level of deferral, if any, of the bonus payment into Company shares.<br>• Maximum bonus levels and the proportion payable are considered in the light of market bonus levels for similar roles among the industry sector.<br>• Bonuses are not pensionable.<br>• The Remuneration Committee sets targets which require appropriate levels of performance, taking into account internal and external expectations of performance.<br>• As soon as practicable after the year end, the Remuneration Committee meets to review performance against objectives and determines payout levels. |
| Performance conditions | The award will be based on performance against individual objectives. |
| Maximum opportunity | No maximum potential bonus has been set. |

### Annual Report on Remuneration Remit of the Remuneration Committee

The remit of the Remuneration Committee (the committee) is provided in the Corporate Governance section.

### Share Price Movements During the Year

The Group's closing share price on 31 December 2021 was 410 pence per share. The highest closing price during the period was 430 pence per share.

### Current Arrangements in Financial Year (Audited)

#### *Executive Director*

Executive Directors are employed under a three-year contract with either party being able to give a notice period of three months. Directors' emoluments for the year were as follows:

| | Period ended 31 December 2021 | | | | | | 2022 |
|---|---|---|---|---|---|---|---|
| £'000 | Salary | Benefits in kind | Bonus (cash) | Bonus (shares) | Pension | Total | Salary at the date of this report |
| Andrew Austin | 171 | 41 | 210 | - | - | 422 | 300 |
| Peter Mann | 62 | 1 | 88 | - | 15 | 166 | 250 |
| Richard Slape | 50 | 4 | 60 | - | 11 | 125 | 200 |
| Total – Executive Directors | 283 | 46 | 358 | - | 26 | 713 | 750 |
| Total – Executive Directors (€'000) | 330 | 53 | 416 | - | 30 | 829 | 872 |

#### *Non-Executive Directors*

The Non-Executive Directors are employed under rolling contracts with notice periods of three months, under which they are not entitled to any pension, benefits or bonuses.

| | Period ended 31 December 2021 | | | | | | 2022 |
|---|---|---|---|---|---|---|---|
| £'000 | Salary | Benefits in kind | Bonus (cash) | Bonus (shares) | Pension | Total | Salary at the date of this report |
| Richard Benmore | 39 | - | - | - | - | 39 | 36 |
| Alan Booth | 39 | - | - | - | - | 39 | 36 |
| Julie Barlow | 39 | - | - | - | - | 39 | 36 |
| Total – Non-Executive Directors | 117 | - | - | - | - | 117 | 108 |
| Total – Non-Executive Directors (€'000) | 136 | - | - | - | - | 136 | 126 |

## Remuneration Committee Report

### *Directors' interests*

| | Shares at 31/12/21 | Options at 31/12/21 | Total beneficial interest at 31/12/21 | % of total shares in issue at 31/12/21 |
|---|---|---|---|---|
| Andrew Austin | 14,145,162 | Nil | 14,145,162 | 17.07 |
| Peter Mann | 1,264,516 | Nil | 1,264,516 | 1.53 |
| Richard Slape | 129,032 | Nil | 129,032 | 0.15 |
| Richard Benmore | 1,132,258 | Nil | 1,132,258 | 1.37 |
| Alan Booth | 232,258 | Nil | 232,258 | 0.28 |
| Julie Barlow | Nil | Nil | Nil | Nil |

**Alan Booth**
Chairman Remuneration Committee
6 April 2022

# Nomination Committee Report

## Summary of the Committee's Responsibilities

The Committee's responsibilities include the following:

- Considering the size, structure and composition of the Board of Directors, retirements and appointments of additional and replacement Directors.
- Ensuring that plans are in place for orderly succession to the Board of Directors and senior management positions, so as to maintain an appropriate balance of skills and experience within the Group and the Board of Directors.

## Nomination Committee

The Nomination Committee is chaired by Richard Benmore and its other member is Alan Booth.

### Nomination Committee Membership

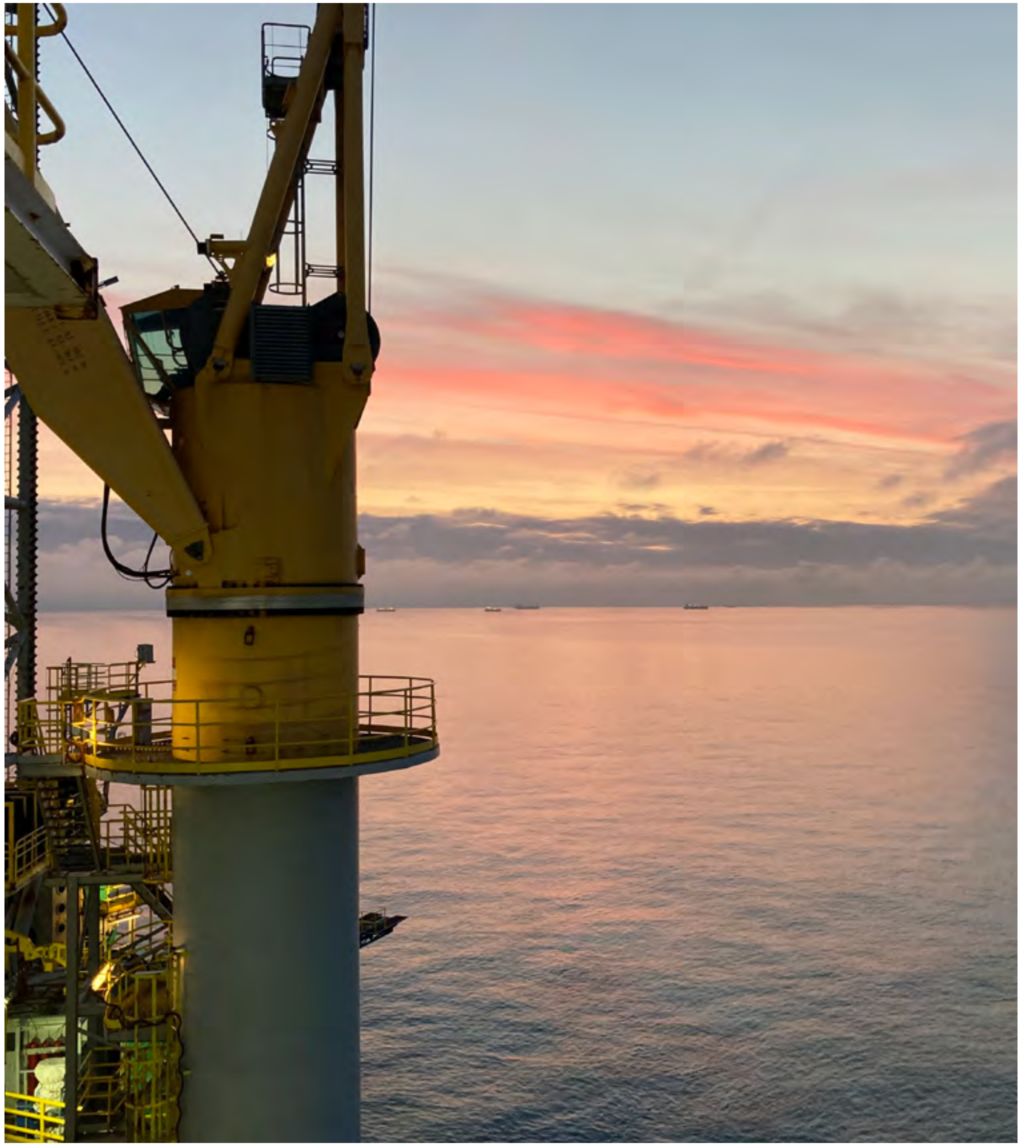
Meetings attended (out of a total possible):

- Richard Benmore 2/2
- Alan Booth 2/2

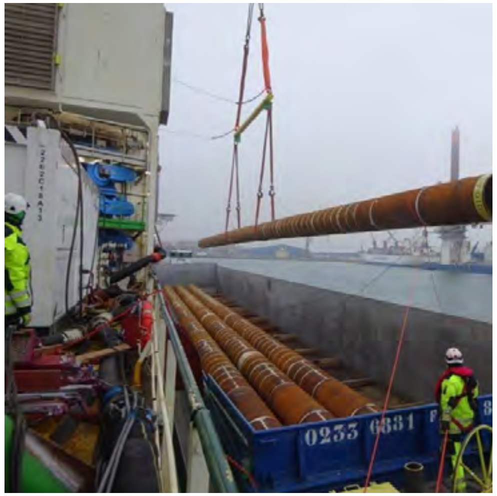
### Key Areas of Focus in the Year Ended 31 December 2021

The principal activities of the Committee during the year were as follows:

- Appointing Peter Mann as Chief Executive Officer (effective from 14 October 2021).
- Appointing Richard Slape as Chief Financial Officer(effective from 14 October 2021).
- Discussions on widening the Board and adding additional independent members and where practicable enhancing the diversity of the Board.



# Audit and Disclosure Committees Report



## Summary of the Committees' Responsibilities

The Committees' responsibilities include the following:

- The Audit Committee reviews reports from management and the Group's auditors relating to the Group's Annual Report & Accounts and the interim results announcements. It advises the Board on whether the Annual Report and interim announcement are fair, balanced, and understandable and provide the Information necessary for Kistos' stakeholders to assess performance against the Group's strategy. The ultimate responsibility for reviewing and approving the Annual Report and Accounts remains with the Board of Directors.
- The Audit Committee ensures compliance with accounting standards and the Listing Rules, and ensures that effective systems of internal financial and non-financial controls (including the management of risk and whistleblowing) are maintained.
- The Audit Committee reviews the external auditors' independence and considering the nature, scope, and results of the auditors' work and policy on any non-audit services that are provided by the external auditors. The Committee is responsible for making recommendations to the Board of Directors on the appointment of the external auditors and remuneration.
- The Disclosure Committee enforces the Group's inside information policy and assesses whether information is 'inside information' and resolves queries about its materiality. For instance, the committee will determine whether an announcement is required in respect of any such inside information and procure that such announcement is made as soon as possible, in accordance with the provisions of the AIM Rules and UK Market Abuse Regulation (MAR).

### Audit and Disclosure Committees

The Committees comprise only Non-Executive Directors, both being chaired by Julie Barlow and having as its other member Alan Booth. Meetings are aligned with the Group's financial reporting calendar and the Committee met two times in the year ended 31 December 2021. The Executive Chairman, CEO, and CFO are invited to attend each meeting of the Committee and participated in all the meetings during the year. The external auditors are also invited to attend meetings of the Committee as appropriate and meet the Committee without the presence of management at least annually.

The Disclosure Committee operates as part of the Audit Committee and monitors and reports upon the Company's obligations under the Disclosure Guidance and Transparency Rules.

### Audit and Disclosure Committees Membership

Meetings attended (out of a total possible):

- Julie Barlow (Chairman) 2/2
- Alan Booth 2/2

### Significant Audit Matters

The areas that the Committee consider key in the year are going concern, the acquisition of Kistos NL1 and Kistos NL2, impairment testing, cash flow hedge accounting, and calculation of corporate and state profit share taxes under the Mining Law.

In light of recent market volatility and the ongoing uncertainties surrounding COVID-19, the key assumptions underlying the Group's ability to continue as a going concern and its longer-term viability, specific consideration was given to potential operational restrictions, pricing and deferment of capital expenditure.

The Group has reviewed in detail the use of the going concern assumption in the preparation of the financial statements. This has been particularly important despite the €77MM cash balance, due to the acquisition of the TotalEnergies asset announced in January 2022, which requires the payment of $125MM by June 2022. Further details on going concern can be found in note 2 of the financial statements.

Acquisition accounting requires the Group to fair value at the acquisition date the assets acquired, and liabilities assumed. The key area of judgement is reviewing the criteria to determine whether this is a business combination or not. The main estimates included in this exercise are related to the weighted average cost of capital for the discounting of the future cash flow expected from the assets bought, the fair value of the tangible fixed assets and the deferred tax liability. Further information on this can be found in note 14.

Impairment testing of the assets recorded as part of the purchase price accounting has required additional attention following the communication around year end of the Slochteren reservoir in the Q11B target being water-bearing. This review has resulted in the recording of a €119.8MM impairment. Further details are available in note 15.

The cash flow hedge taken out post acquisition has required additional fair value assessment, using external experts where necessary, to be performed at the balance sheet date to ensure the appropriate accounting treatment is followed.

The calculation of the corporate and state profit share taxes under the Dutch Mining Law has necessitated the use of internal expertise supplemented by external guidance from tax advisors where necessary.

# Risk Management

## Understanding the risks associated with our operations

**Direction of change**

Increase in risk ↑
No change in risk →
Decrease in risk ↓

| | Risk | Executive Ownership | Mitigation | Change |
|---|---|---|---|---|
| Strategic | **Exposure to political risk**<br>This can include changes in government policy towards gas companies. These political risks can result in challenges related to permitting applications for development, appraisal and exploratory drilling in Kistos focused blocks which can ultimately impact the Group's ability to deliver its strategy. | **Peter Mann**<br>CEO | Directly and through NOGEPA and other industry associations, the Group engages with the government and other appropriate organisations to ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations. | → |
| Strategic | **Growth strategy**<br>Growth strategy fails to meet shareholder expectations. | **Andrew Austin**<br>Executive Chairman | Identify and evaluate a broad range of acquisition opportunities while ensuring that all organic growth opportunities are properly assessed and, where appropriate, pursued.<br>Provide clear, transparent and consistent communication to all stakeholders. Ensure delivery against the five-year plan. Regular meetings with shareholders and potential shareholders. | → |
| Strategic | **Climate change**<br>Changes in laws, regulations, policies, obligations and social attitudes relating to the transition to a lower carbon economy could lead to higher costs, or reduced demand and prices for gas, impacting the profitability of the Group. | **Peter Mann**<br>CEO | The Group works closely with regulators to ensure that all required planning consents and permits for operations are in place and maintains continual dialogue with all stakeholders to understand emerging requirements. The Board actively reviews the Group's strategy towards energy transition with a focus on gas to ensure it remains relevant and will provide long-term returns to shareholders. | → |
| Strategic | **Cyber security**<br>Exposure to a serious cyber-attack which could affect the operation of the unmanned Q10-A platform, confidentiality of data and availability of critical business information. | **Richard Slape**<br>IT | The Group outsources its provision of IT equipment and help desk services to third parties. Various network management systems are used to protect the Group's IT environment. | → |
| Operational | **Planning, environmental, regulatory, licensing and other permitting risks**<br>Planning, environmental, licensing and other permitting risks associated in particular with operations, drilling and construction. | **Peter Mann**<br>CEO | The Group manages such risks in the context of upcoming developments through engagements with stakeholders. Where necessary alternative options are also considered to allow for risk mitigation. External consultants with experience in managing these developments are employed to help complement the existing team skills.<br>Potential development routes on existing production and new development opportunities are reviewed to maximise shareholder returns. | → |
| Operational | **Gas production**<br>Gas is not produced in the anticipated quantities from any or all of the Group's assets, unplanned shutdown's on third-party evacuation routes, or that gas cannot be delivered economically. | **Peter Mann**<br>CEO | The Group reviews production performance from each of its wells to enable it to predict well performance and plan well intervention activities as needed.<br>To the extent possible discussions are held with third parties to manage shutdowns both planned and unplanned. | → |

## Risk Management

**Direction of change**

Increase in risk ↑
No change in risk →
Decrease in risk ↓

| | Risk | Executive Ownership | Mitigation | Change |
|---|---|---|---|---|
| Operational | **Project delivery on time and on cost**<br>Risk of delays in project delivery and higher costs being incurred. | **Peter Mann**<br>CEO | Each project has a clear project delivery framework with a responsible project lead. Delivery against the project objectives, timeline and cost are regularly monitored. Risks being faced are discussed and where appropriate risk mitigation steps implemented. | → |
| Operational | **Loss of key staff**<br>Loss of key staff. | **Peter Mann**<br>CEO | The Board seeks to cultivate a safe, respectful working environment where people can thrive. Management has undertaken a benchmarking exercise on salaries to ensure that acquired staff are retained through a strong remuneration culture. Management also intends to introduce a long-term incentive plan scheme linked to performance and to aid retention of key staff. | ↓ |
| Operational | **Pandemic**<br>Exposure to a global pandemic, such as COVID-19, that leads to reduction in staff availability, disruption to the Group's operations and delays to the supply chain. | **Peter Mann**<br>CEO | The Board has business continuity plans to manage any disruption to operations. The Group adopts flexible work patterns based on the latest guidance available, including working from home where necessary. Strict COVID-19 testing procedures have also been adopted on the drilling rig and Q10-A platform. | ↓ |
| Financial | **Gas price risk**<br>Exposure to market price risk through variations in the gas price. | **Richard Slape**<br>CFO | The positive volatility in the gas price during 2021 has helped underlying revenues. The Group however does have a policy of hedging its cash flows where needed.<br>Post-acquisition and to ensure the underlying capital expenditure programme could be financed, the Group undertook a partial hedge of 100,000 MWh of production up to 31 March 2022.<br>The Board continuously reviews the gas markets to determine whether future hedges are needed. | → |
| Financial | **Liquidity risk**<br>Exposure, through its operations and developments, to liquidity risk. | **Richard Slape**<br>CFO | Management regularly reviews the Group's cash forecasts and its covenants to ensure an adequate headroom of cash availability. | → |
| Financial | **Decommissioning costs and timing**<br>The estimated future costs and timing of decommissioning is a significant estimate; any adverse movement in price, operational issues and changes in reserves and resource estimates could have a significant impact on the cost and timing of decommissioning. | **Richard Slape**<br>CFO | The Group mitigates this risk through in-house decommissioning experience, coupled with a continued focus on delivering asset value to defer abandonment liabilities. | → |

# Board of Directors

**Andrew Austin**
Executive Chairman

- Executive Chairman of RockRose from 2016 until 2020, delivering a 42x return to shareholders.
- Jointly founded IGas Energy PLC in 2004 and developed it to become the leading onshore hydrocarbon producer in the UK.
- 17 years working in investment banking in the City of London with Merrill Lynch, Nomura, Citibank and Barclays Capital.

**Peter Mann**
Chief Executive Officer

- CEO and Managing Director of RockRose from 2017 until 2021 following five years at IGas.
- While at IGas, Peter was responsible for business strategy and implementing restructuring strategy in the difficult oil price environment.
- Prior to IGas, Peter's career included various management roles. He also served in the British Army for six years.

**Richard Slape**
Chief Financial Officer

- CFO of RockRose from 2019 until 2021.
- Richard has over 30 years of experience working with independent Oil & Gas exploration and production companies.
- Spent much of his career working in equity capital markets but also held roles at Rockhopper Exploration and Lansdowne Oil & Gas, where he was a director.

**Richard Benmore**
Non-Executive Director

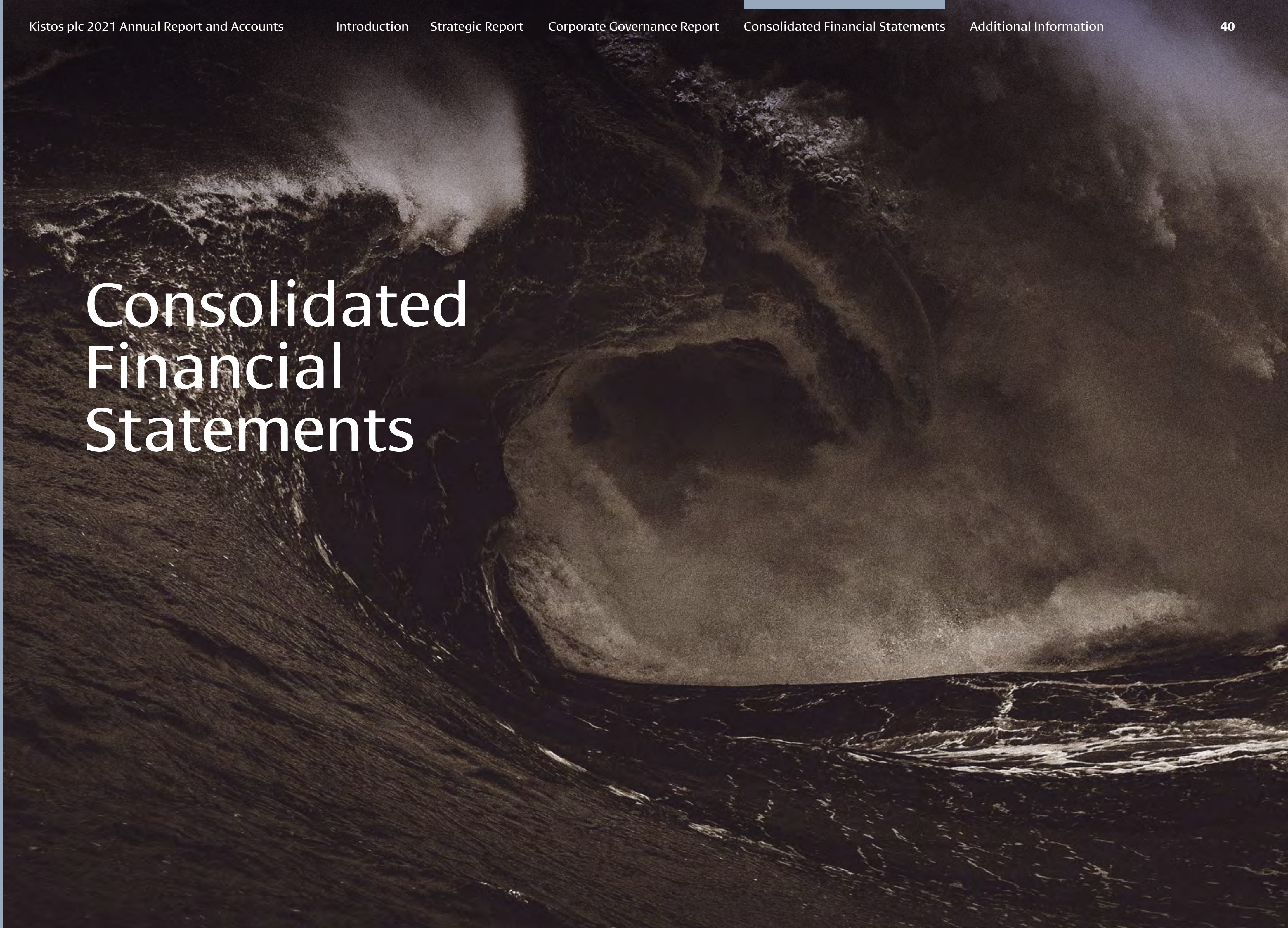
- 35 years of industry experience with Conoco, Oryx Energy, Nimir Petroleum, EnCana, Nexen Petroleum and IGas.
- Managed Nexen's unconventional projects in the UK and Poland and was a board member of Nexen Exploration UK.
- Richard was a Non-Executive Director of RockRose.

**Julie Barlow**
Non-Executive Director

- Group Financial Controller and Company Secretary for the Pentex Group of companies.
- Managing Director of the Production Division of Star Energy.
- Since 2017, Julie has been an independent contractor, latterly working with RockRose, supporting its M&A capability and integration of acquisitions.

**Alan Booth**
Non-Executive Director

- 30 years' experience in Oil & Gas exploration and production.
- A Non-Executive Director of Ophir Energy plc from 2013 to 2018, when he became CEO.
- Founder and CEO of EnCore Oil plc, an AIM-listed oil and gas exploration company, and a founder/director of EnCounter Oil Ltd.



# Consolidated Financial Statements

# Consolidated Financial Statements

## Consolidated profit and loss for the period from 14 October 2020 to 31 December 2021

| €'000 | Note | 14 October 2020 to 31 December 2021 |
|---|---|---|
| **Revenue** | 3 | **89,628** |
| **Other income** | | **61** |
| Exploration expenses | | (123) |
| Production costs | 4 | (6,143) |
| Development expenses | 5 | (4,456) |
| Other operating expenses | 6 | (7,426) |
| Depreciation and amortisation | 15,16 | (13,277) |
| Impairments | 16 | (121,036) |
| **Total operating expenses** | | **(152,461)** |
| **Operating loss** | | **(62,772)** |
| Interest expenses | 10 | (8,993) |
| Finance income and expenses | 10 | (2,092) |
| **Net finance costs** | | **(11,085)** |
| **Loss before taxes** | | **(73,857)** |
| Tax (charge)/credit | 12 | 33,749 |
| **Loss for the period attributable to owners of the Group** | | **(40,108)** |
| **Basic and diluted (loss)/earnings per share (cents)** | 11 | **(0.68)** |

## Consolidated statement of comprehensive income for the period from 14 October 2020 to 31 December 2021

| | | 14 October 2020 to 31 December 2021 €'000 |
|---|---|---|
| **Profit/(loss) for the period attributable to owners of the Group** | | **(40,108)** |
| **Items that may be reclassified to profit or loss** | | |
| Costs of cash flow hedge deferred and recognised in OCI | 21 | (38,624) |
| Cash flow hedge – reclassified to profit or loss | 21 | 26,843 |
| Tax impact on hedge reserve in OCI | 21 | 5,891 |
| Foreign currency translation differences | | 382 |
| **Total comprehensive income attributable to owners of the Group** | | **(45,616)** |

## Consolidated balance sheet as at 31 December 2021

| €'000 | Note | 31 December 2021 |
|---|---|---|
| **Non-current assets** | | |
| Goodwill | 14,15 | - |
| Exploration and evaluation assets | 15 | 45,771 |
| Property, plant and equipment | 16 | 171,227 |
| Deferred tax assets | 12 | 13,496 |
| | | **230,494** |
| **Current assets** | | |
| Inventories | | 902 |
| Unbilled receivables | 29 | 40,299 |
| Other receivables | 17 | 8,439 |
| Cash and cash equivalents | 18 | 77,288 |
| | | **126,928** |
| **Total assets** | | **357,422** |
| **Equity** | | |
| Share capital | 19 | 9,627 |
| Share premium | 20a | 94,181 |
| Merger reserve | 20b | 14,734 |
| Hedge reserve | 21 | (5,890) |
| Translation reserve | 22 | 382 |
| Retained earnings | | (42,463) |
| **Total equity** | | **70,571** |
| **Non-current liabilities** | | |
| Abandonment provision | 24 | 15,904 |
| Bond payable | 25 | 145,074 |
| Deferred tax liability | 26 | 57,288 |
| Other non-current liabilities | | 31 |
| | | **218,297** |
| **Current liabilities** | | |
| Trade payables and accrued expenses | 27 | 23,479 |
| Tax payable | | 14,980 |
| Abandonment provision | 24 | 1,272 |
| Other liabilities | 28 | 28,823 |
| | | **68,554** |
| **Total liabilities** | | **286,851** |
| **TOTAL EQUITY AND LIABILITIES** | | **357,422** |

The notes on pages 43 to 69 are an integral part of these financial statements and were approved by the Board of Directors on 6 April 2022.

**Andrew Austin**
Executive Chairman

# Consolidated Financial Statements

## Consolidated statement of changes in equity for the period from 14 October 2020 to 31 December 2021

| €'000 | Share capital | Share premium | Merger reserve | Hedge reserve | Translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Opening balance** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Loss for the period | - | - | - | - | | (40,108) | (40,108) |
| Movement in the period | - | - | - | (5,890) | 382 | - | (5,508) |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **(5,890)** | **382** | **(40,108)** | **(45,616)** |
| **Transactions with owners** | | | | | | | |
| Shares issued in the period | 9,627 | 94,181 | 14,734 | - | - | - | 118,542 |
| Shares issue costs | - | - | - | - | - | (2,355) | (2,355) |
| **Total transactions with owners** | **9,627** | **94,181** | **14,734** | **-** | **-** | **(2,355)** | **116,187** |
| **Equity as of 31.12.2021** | **9,627** | **94,181** | **14,734** | **(5,890)** | **382** | **(42,463)** | **70,571** |

## Consolidated statement of cash flow for the period from 14 October 2020 to 31 December 2021

| €'000 | Note | 14 October 2020 to 31 December 2021 |
|---|---|---|
| **Cash flow from operating activities** | | |
| **Loss for the period** | | **(40,108)** |
| Tax charge/(credit) | 12 | (33,749) |
| Net finance costs | 10 | 11,085 |
| Depreciation and amortisation | 16 | 13,277 |
| Impairment losses | 15,16 | 121,036 |
| Taxes paid | | (890) |
| (Increase)/decrease in trade and other receivables | | (40,990) |
| Increase/(decrease) in trade, other payables and provisions | | 18,582 |
| (Increase)/decrease in inventories | | (287) |
| **Net cash flow from operating activities** | | **47,956** |
| **Cash flow from investing activities** | | |
| Payments to acquire tangible fixed assets | 32 | (19,958) |
| Payments for acquisition of Kistos NL1 and NL2 | 14,32 | (100,696) |
| **Net cash flow from investing activities** | | **(120,654)** |
| **Cash flow from financing activities** | | |
| Proceeds from share issue | | 102,441 |
| Costs incurred for share issue | | (2,355) |
| Repayment of long-term payables | | (79) |
| Interest paid | | (7,461) |
| Bond refinancing | 25 | 3,000 |
| Bond issue costs | | (2,933) |
| Bond redemption costs | | (2,627) |
| Proceeds from bond issue | **25** | 60,000 |
| **Net cash flow from financing activities** | | **149,986** |
| **Increase/(decrease) in cash and cash equivalents** | | **77,288** |
| Cash and cash equivalents opening | | - |
| **Cash and cash equivalents at 31 December 2021** | **18** | **77,288** |

The notes on pages 43 to 69 are an integral part of these financial statements.

# Notes to the Consolidated Financial Statements

## Note 1: Accounting policies

### a) General information

Kistos plc (hereinafter “the Group”) is a public limited liability Group incorporated on 14 October 2020 in England and Wales whose shares are publicly traded on the Alternative Investment Market in London. The address of its registered office and principal place of business is 9th Floor 107 Cheapside, London, United Kingdom, EC2V 6DN. The Group is registered in the Trade Register at the Companies House under number 12949154.

The main focus of the Group is creating value for its investors through the acquisition and management of companies or businesses in the energy sector. On 20 May 2021 Kistos NL1 B.V. (“‘Kistos NL1”) was acquired by Kistos plc. Kistos NL2 B.V. (“‘Kistos NL2”) is a wholly owned subsidiary of Kistos NL1 B.V. The main focus of these subsidiaries is the upstream development and production with a focus on the exploitation opportunities in undiscovered and undeveloped (offshore) oil and gas fields in The Netherlands. Together with the wholly owned subsidiary Kistos Energy Ltd., these subsidiaries form the Kistos Group (hereinafter referred to as “the Group”).

The Group holds the exploration licenses for Q8, Q10-B, Q11, M10-A + M11A and Terschelling-Noord and holds the production licenses for Q7, Q10-A, Akkrum-11, Donkerbroek and Donkerbroek-West. Together with Energie Beheer Netherlands (‘EBN’) as partner, Kistos NL2 acts as the operator in the joint operation agreements of the abovementioned offshore licenses.

#### *Financial reporting period*

These consolidated financial statements cover the first extended financial period of the Group, which runs from 14 October 2020 to 31 December 2021.

### b) Going concern

The total available liquidity at 31 December 2021 for the Kistos Group was €77.3MM in cash and cash equivalents, and from May 2021, when the Group acquired Tulip Oil Netherlands Offshore B.V., the Group has generated €48MM of cash from operating activities.

To assess the Group’s and the Parent Company’s ability to continue as a going concern, management has prepared base case and downside cash flow forecasts to 31 December 2023. These forecasts have considered the recently announced 20% acquisition of TotalEnergies interest in the Greater Laggan Area (GLA) West of Shetland for US$125MM (with additional contingent considerations that may be payable in January 2023). This is planned to be funded through internally generated cash resources. This transaction, which is subject to customary regulatory and partner consents, is envisaged to complete in Q2 2022. The effective date of the transaction is 1 January 2022.

Management’s base case cash flow forecast assumes:

- Production between 1 January 2022 and the acquisition date is offset against the acquisition price.
- Q10-A and TotalEnergies future production is in line with forecast, and future sales are priced at the ICIS forward gas curve.
- Gross acquisition consideration of US$125MM is paid in June 2022 and Debt Service Obligations of €16.5MM in respect of asset retirement obligations are paid into Escrow.

This forecast shows that minimum covenant liquidity and leverage covenants under the bond are complied with in all periods.

Management has also prepared downside cash flow forecasts. This has focused on the pinch point for cash, which is when the consideration for the TotalEnergies acquisition is paid in Q2 2022. This shows if no further cash was generated or costs incurred for TotalEnergies or Q10-A after March 2022, there would be no breach of the liquidity or leverage covenants.

Management has also performed a reverse stress test, which showed that either a reduction in sales volumes or gas price of greater than 67% for the remainder of the forecast period, with all other factors held constant, would result in the liquidity covenant being breached in June 2023.

Accordingly, the Directors have concluded that these circumstances form a reasonable expectation that the Group has adequate resources to continue in operational existence, for the foreseeable future. For these reasons, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

## Note 2: Basis of preparation

### a) Statement of compliance

The consolidated financial statements for the extended period from 14 October 2020 to 31 December 2021 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Details of the Group's significant accounting policies are set out in note 2e.

The Group's financial statements were authorised for issue by the Board on 6 April 2022.

### b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date:

- derivative financial instruments are measured at fair value (see note 29);
- non-derivative financial instruments are measured at fair value through profit and loss account (FVTPL) (see Note 29); and
- contingent consideration assumed in a business combination at fair value (see note 29).

### c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates ('the functional currency').

Transactions in foreign currencies are translated to the entity's functional currency at the foreign exchange rates at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. All UK entities in the Group have a functional currency of GBP. All Dutch entities have a functional currency of EUR.

The presentation currency for the financial statements is EUR as the significant subsidiaries have most of their transactions in this currency. All amounts have been rounded to the nearest €1 thousands, unless otherwise stated.

The results and balance sheet of all of the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet (long term assets and liabilities translated at the historic rate);
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of each transaction); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### d) Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

# Notes to the Consolidated Financial Statements

### e) Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

### *Judgements*

The significant judgements made in applying the accounting policies to the Group's consolidated financial statements are set out below.

**Acquisition accounting**

The standard on acquisition accounting requires an assessment of whether an acquisition meets the criteria of a business. The acquisition of the Dutch North Sea assets of Kistos NL1 and NL2 in the view of management does meet this definition and hence the appropriate accounting implications have been followed.

**Abandonment provisions**

The abandonment provisions for Kistos NL2 assume that the pipelines between Q10-A and P15D can remain in place and do not need to be removed. This is based on recent updates in legislative changes.

**Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties at 31 December 2021 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year are included below.

- Acquisition accounting (note 14)

  During 2021, Kistos plc undertook acquisition accounting of its newly acquired subsidiaries: Kistos NL1 and Kistos NL2. As part of the purchase price accounting and following the use of an external consultant, a step up has been recorded on the valuation of the tangible and intangible fixed assets. Management has determined that the fair value of the current assets and current liabilities, including financial liabilities, are equal to book value.

- Carrying value of goodwill, intangible assets and property, plant and equipment (note 15 and 16):

  Management performs annual impairment testing on the goodwill balance to assess recoverability. The principles of this assessment are similar to that adopted for tangible and intangible assets where an impairment trigger exists.

Management performs impairment reviews on the Group's intangible assets and property, plant and equipment assets at least annually with reference to indicators in IAS 36 Impairment of Assets. Where indicators are present and an impairment test is required, the calculation of the recoverable amount requires estimation of future cash flows within complex impairment models.

Key assumptions and estimates in the impairment models relate to: commodity prices and the long-term corporate economic assumptions thereafter, operating expenses, capital expenditures, pre-tax discount rates that are adjusted to reflect risks specific to individual assets, commercial resources and the related cost profiles.

Impairment tests are carried out on the following basis:

- By comparing the sum of any amounts carried in the books as compared to the recoverable amounts;
- The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The Group generally assesses the value in use using the estimated future cash flows which are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU; and
- Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value and the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.
- Commercial reserves (oil and gas) estimates used in the calculation of depreciation and impairment of property, plant and equipment (note 16):

P1 proven and P2 probable reserves are estimates of the amount of oil and gas that can be economically extracted from the Group's oil and gas assets. The Group estimates its resources using standard recognised evaluation techniques. The estimate is reviewed at least annually by management and is reviewed as required by independent consultants.

Proven and probable reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices; these having an impact on the total amount of recoverable reserves. Depreciation is calculated using the net book value of the asset multiplied by the ratio of production divided by 2P reserves remaining.

## Notes to the Consolidated Financial Statements

- Abandonment provision (note 24):

  Decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new technology or experience at other assets. The expected timing, work scope, amount of expenditure and risk weighting may also change. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning.

  The estimated decommissioning costs are reviewed annually by an internal expert and the results of this review are then assessed alongside estimates from Operators. Provision for environmental clean-up and remediation costs is based on current legal and contractual requirements, technology and price levels.

- Current tax charge and deferred tax assets (note 12):

  Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognised in respect of deferred tax assets as well as in the amounts recognised in income in the period in which the change occurs.

  Current tax is calculated based on the best available information. Changes between the tax charge included in the consolidated financial statements and the subsequent tax filings are recognised prospectively as a prior year tax charge.

- Measurement of fair values (note 29):

  A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

  - Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
  - Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
  - Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

  If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

### f) Statement of cash flows

The statement of cash flows is prepared in accordance with indirect method and constitutes an explanation of the change in net cash, defined as cash and cash equivalents. In the statement of cash flows, a differentiation is made between cash flows from operating, investing and financing activities.

Cash flows in currencies other than the euro are translated at the exchange rates prevailing at the date of the transaction. The Group uses periodically fixed average exchange rates that effectively approximate the exchange rates on transaction dates.

# Note 3: Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over the oil or gas sold to a customer.

| €'000 | 14 October 2020 to 31 December 2021 |
|---|---|
| Recognised income liquids | 108 |
| Recognised income gas | 89,520 |
| **Total petroleum revenues** | **89,628** |
| **Breakdown of produced volumes (thousand barrels of oil equivalent)** | |
| Liquids | 6 |
| Gas | 1,055 |
| **Total produced volumes** | **1,061** |
| Gas (million $Nm^3$) | 157 |
| Gas ('000 MWh) | 1,892 |

# Note 4: Production costs

Production costs include the costs related to:

- the export of the gas produced from the Q10-A platform to a third-party platform, P15-D, including treatment tariff, compression tariff and fixed fees;
- well maintenance expenditures;
- GTS capacity fees; and
- structural and facility-related surveys.

Notes to the Consolidated Financial Statements

## Note 5: Development expenses

These are mainly pre final investment decision expenses incurred on front end engineering and design related to potential alternative commercial evacuation routes.

## Note 6: Other operating expenses

| €'000 | 14 October 2020 to 31 December 2021 |
|---|---|
| Salaries and contractors | 3,114 |
| Travel and travel-related costs | 129 |
| IT and communication | 105 |
| Professional services | 4,238 |
| Cost recharges | 820 |
| Other (including recovery of cost and capitalisation of costs) | (980) |
| **Total other operating expenses** | **7,426** |

Other includes IT and communication costs, occupancy costs and other costs offset by joint operator recovery of €1.0MM and capitalisations of €670 thousand of costs related to the drilling programme executed.

## Note 7: Employee benefit expenses

| €'000 | 14 October 2020 to 31 December 2021 |
|---|---|
| Wages and salaries | 2,585 |
| Social security costs | 272 |
| **Total employee benefit expenses** | **2,857** |

At the end of the year there were 17 employees of the Group in 2021 (excluding Non-Executive Directors), 12 of them working in The Netherlands and five of them working in the United Kingdom.

During the period of 14 October 2020 to 31 December 2021, the average number of staff employed by the Group, amounted to 10 people. This staffing level (average number of staff) can be divided into the following staff categories, including Executive Directors, in the year:

| | 14 October 2020 to 31 December 2021 |
|---|---|
| Technical | 4 |
| Support | 6 |
| **Total staff** | **10** |

## Note 8: Directors' remuneration

The following table details remuneration of Executive Directors of the Group. Key management personnel are the Executive and Non-Executive Directors of the Group.

| €'000 | 14 October 2020 to 31 December 2021 |
|---|---|
| Short-term employee benefits | 935 |
| Post-employment benefits | 30 |
| **Total Directors' remuneration** | **965** |

The highest paid Director has a total remuneration of €490 thousand.

An interest-free loan of €238,214 (£200,000) has been granted by the Group to one of its Executive Directors during the period. This loan remains outstanding at the balance sheet date. No other loans, advances or guarantees have been granted by the Group to its Executive or Non-Executive Directors during the period 14 October 2020 to 31 December 2021.

## Note 9: Reconciliation of adjusted EBITDA to operating profit

| €'000 | 14 October 2020 to 31 December 2021 | Pro forma EBITDA for the year 2021 |
|---|---|---|
| **Adjusted EBITDA** | **78,861** | **102,862** |
| Depreciation and amortisation expense | (13,277) | (20,247) |
| Impairment | (121,036) | (128,057) |
| Pre-FID expenses | (4,456) | (4,535) |
| Transaction costs | (2,864) | (2,172) |
| **Operating loss** | **(62,772)** | **(52,599)** |

Adjusted EBITDA is calculated on a business performance basis. Refer to the alternative performance measures definition within the glossary on page 77. Transaction costs represents professional advisor costs incurred in the listing of Kistos plc.

## Notes to the Consolidated Financial Statements

# Note 10: Net finance costs

| €'000 | 14 October 2020 to 31 December 2021 |
|---|---|
| Other interest expenses | 93 |
| Interest expenses | 8,900 |
| **Total interest expenses** | **8,993** |
| Accretion expenses | 45 |
| Amortised loan costs | 700 |
| Hedge ineffectiveness (see note 29) | 625 |
| Loss on bond redemption (see note 25) | 781 |
| Foreign exchange gains | (59) |
| **Total other financial expenses** | **2,092** |
| **Net finance costs** | **11,085** |

During 2021, €940 thousand of interest expenses have been capitalised under property, plant and equipment. The Group ceased capitalising interest from October 2021 following the completion of the remaining drilling programme related to the initial financing secured by Kistos NL2 and the initial plans drawn up for the Q10-A asset.

# Note 11: (Loss)/earnings per share

### Basic (loss)/earnings per share

The calculation of basic earnings per share (EPS) has been based on the following consolidated profit attributable to ordinary shareholders and a number of ordinary shares outstanding.

| **Profit/(loss) attributable to ordinary shareholders (basic)** | |
|---|---|
| Consolidated profit/(loss) for the period, attributable to shareholders of the Group (€'000) | (40,108) |
| Average number of shares in the period | 58,867,726 |
| **(Loss)/earnings per share** | **(0.68)** |
| Diluted (loss)/earnings per share | (0.68) |

# Note 12: Tax (charge)/credit

| €'000 | 14 October 2020 to 31 December 2021 |
|---|---|
| **Current tax expense** | |
| Current year | (14,091) |
| **Deferred tax expense** | |
| Deferred tax assets expense | (11,872) |
| Deferred tax liability expense (see note 26) | 59,712 |
| **Tax (charge)/credit** | **33,749** |

The income tax credit for the period can be reconciled to the accounting profit as follows:

| €'000 | 14 October 2020 to 31 December 2021 |
|---|---|
| **Loss before taxes** | **(73,857)** |
| **Income tax (expense)/benefit calculated at 50%** | **36,929** |
| Expense uplift on SPS | 694 |
| Marginal field incentive (investment allowance) | 1,545 |
| Difference in tax rates | (2,712) |
| Other movements | (1,045) |
| Parent company losses not recognised | (1,662) |
| **Tax (charge)/credit** | **33,749** |
| Effective tax rate | 45.7% |

| | Temporary differences | | | |
|---|---|---|---|---|
| €'000 | Tax losses | Provisions | Other | Total |
| **Opening balance** | - | - | - | - |
| Acquired balances | 14,802 | 2,765 | 1,910 | 19,477 |
| Deferred tax on hedge reserve in OCI (see note 21) | - | - | 5,891 | 5,891 |
| Profit and loss account | (7,787) | 1,403 | (5,488) | (11,872) |
| **At 31 December 2021** | **7,015** | **4,168** | **(2,313)** | **13,496** |

The tax losses are made up of Corporate Income Tax ("CIT") and State Profit Share ("SPS") losses. Provisions relate to temporary differences on abandonment provisions and Other relates to temporary differences on property, plant and equipment, abandonment fixed assets and other provisions/liabilities.

Notes to the Consolidated Financial Statements

SPS losses can be carried forward indefinitely and are expected to be recovered in the coming year for Kistos NL2 given the production levels and high gas prices in 2022. The SPS losses in Kistos NL1 have been written off given the uncertainty over the future development of M10a and M11 discoveries (€15.4MM).

CIT losses can only be carried forward for a defined period of time. Some losses in Kistos NL1 cannot be utilised and hence have been fully provided for. This amounts to €1.9MM (2020: €3.0MM).

Kistos plc standalone losses have not been recognised due to the uncertainty of future profits and where they may arise from.

During 2020, a new framework for fiscal union compensation was established covering 2019 and future years. This results in an intercompany settlement of tax charges/(credits) where an offset against other available losses/(profits) within the fiscal union is possible. Kistos NL1 formed a fiscal unity with its subsidiary Kistos NL2 as of 1 April 2021. The fiscal unity with Tulip Oil Holding B.V. ended on 31 March 2021.

## Note 13: Subsidiaries and joint arrangements

### Subsidiaries

Details of the Group's subsidiaries (both direct and indirect) at the end of the reporting year are as follows:

| Name of subsidiary | Principal activity | Place of incorporation and operation | Proportion of ownership interest and voting power held by the Group |
|---|---|---|---|
| Kistos NL1 B.V. | Onshore and offshore exploration and production of hydrocarbon volumes | The Hague, Netherlands | 100% |
| Kistos NL2 B.V. | Offshore exploration and production of hydrocarbon volumes | The Hague, Netherlands | 100% |
| Kistos Energy Ltd. | Management consultancy activities other than financial management | London, United Kingdom | 100% |

### Joint arrangements

The Group has the following interest in joint arrangement that classifies as a joint operation:

| Joint arrangement | Licence owner | Licence type | Partner | Status | Period ended 31 December 2021 |
|---|---|---|---|---|---|
| M10a & M11 (offshore block) | Kistos NL1 B.V. | Exploration | EBN | Operated | 60% |
| Terschelling-Noord | Kistos NL1 B.V. | Exploration | EBN | Operated | 60% |
| Donkerbroek | Kistos NL1 B.V. | Production | EBN | Operated | 60% |
| Donkerbroek-West | Kistos NL1 B.V. | Production | EBN | Operated | 60% |
| Akkrum-11 | Kistos NL1 B.V. | Production | EBN | Operated | 60% |
| Q07 | Kistos NL2 B.V. | Production | EBN | Operated | 60% |
| Q08 (offshore block) | Kistos NL2 B.V. | Exploration | EBN | Operated | 60% |
| Q10-A (offshore block) | Kistos NL2 B.V. | Production | EBN | Operated | 60% |
| Q10-B (offshore block) | Kistos NL2 B.V. | Exploration | EBN | Operated | 60% |
| Q11 (offshore block) | Kistos NL2 B.V. | Exploration | EBN | Operated | 60% |

## Note 14: Acquisition

In line with the mission statement of Kistos plc to create value for shareholders through the acquisition and management of companies in the energy sector, on 20 May 2021, Kistos plc completed the 100% acquisition of Tulip Oil Netherlands B.V. (now called Kistos NL1) and Tulip Oil Netherlands Offshore B.V. (now called Kistos NL2) for €155MM. The transaction assets constitute a business and the acquisition has been accounted for using the acquisition method, in accordance with IFRS3 business combinations. Control of the businesses was acquired through the acquisition of 100% of the shares of Kistos NL1, which also fully owns Kistos NL2. The consolidated financial statements include the fair value of the identifiable assets and liabilities as at the acquisition date and the results of Kistos NL1 and Kistos NL2 from 21 May 2021 till 31 December 2021. The next table shows management's assessment of the calculated fair values.

## Notes to the Consolidated Financial Statements

### Fair value acquisition

| €'000 | Fair value |
|---|---|
| Deferred tax assets | 19,477 |
| Cash and cash equivalents | 23,529 |
| Trade and other receivables | 8,600 |
| Inventory | 615 |
| Property, plant and equipment | 81,725 |
| Exploration and evaluation assets | 144,856 |
| Production assets | 93,800 |
| Trade and other payables | (4,500) |
| Provisions | (14,158) |
| Accrued expenses | (3,552) |
| Deferred tax liability | (117,000) |
| Borrowings | (85,417) |
| **Net assets acquired** | **147,975** |
| **Total consideration paid** | **154,975** |
| **Goodwill** | **7,000** |

An external valuation specialist has been used for determining the purchase price accounting. The key assumptions used to arrive at the fair value are:

| Assumption | Value/range | Unit |
|---|---|---|
| Blended WACC | 13.8% | |
| Production CGU WACC | 13.0% | |
| Exploration CGU WACC | 15.2% | |
| Gas price | 17.0–19.7 | €/MWh |

As part of the purchase price accounting two cash generating units have been determined: production (covering Q10-A) and exploration (covering Q11-B, Q10 Gamma and Q10-B gas). A forecast period of 2041 has been applied to the production CGU and 2032 to the exploration CGU. The forecast period is based on the expected life of both the assets. A gas price in the range of 17.0-19.7 €/MWh has been used for the period to 2025. An inflation increase of 2% on the gas price has been assumed after 2025. The deferred tax liability on the intangibles has been recognised at a tax rate of 50%.

### Cash flow overview acquisition

| | Cash | Non-cash | Total |
|---|---|---|---|
| Cash | 60,000 | - | 60,000 |
| Cash raised through additional borrowings | 60,000 | - | 60,000 |
| Surplus cash extraction | 5,108 | - | 5,108 |
| Other SPA adjustments | (883) | - | (883) |
| Shares in Kistos plc | - | 15,750 | 15,750 |
| Contingent consideration | - | 15,000 | 15,000 |
| **Total consideration paid** | **124,225** | **30,750** | **154,975** |
| Cash held in Kistos NL2 | (23,529) | | |
| **Cash outflow on acquisition** | **100,696** | | |

The company may be required to pay contingent milestone consideration upon:

i) Intention to continue exploitation activities in respect of Vlieland Oil (€7.5MM) and M10-M11 (€7.5MM) by Feb 2022. As management has the intention to continue with these activities, this contingent consideration has been recognised at the balance sheet date.

ii) Up to a maximum of €75MM payable at FID of Vlieland Oil based on the recognition of estimated reserves recognised.

iii) Up to a maximum of €75MM payable at FID of M10-M11 based on the recognition of estimated reserves recognised.

iv) Taking FID on the Q10-Gamma prospect by 2025 to the amount €10MM.

Payments related to ii)–iv) if crystallised would be incurred post the IFRS 3 measurement period of 12 months. As a result, these payments would be accounted at fair value through the profit and loss account. Based on management's best estimates no contingent consideration for items ii)–iv) have been recognised as at balance sheet date.

## Notes to the Consolidated Financial Statements

# Note 15: Intangible assets

| €'000 | Goodwill | Exploration and evaluation assets | Total |
|---|---|---|---|
| **Opening balance** | - | - | - |
| Acquisitions (see note 14)* | 7,000 | 144,856 | 151,856 |
| Acquisitions | - | 13,717 | 13,717 |
| **Acquisition cost 31.12.2021** | **7,000** | **158,573** | **165,573** |
| **Opening balance accumulated amortisation and impairments** | - | - | - |
| Amortisation | - | - | - |
| Impairment | (7,000) | (112,802) | (119,802) |
| **Accumulated amortisation and impairments 31.12.2021** | **(7,000)** | **(112,802)** | **(119,802)** |
| **Book value 31.12.2021** | - | **45,771** | **45,771** |

* The exploration and evaluation assets include an amount of €140.2MM arising on the purchase price accounting following the acquisition of Kistos NL1 and Kistos NL2, see note 14.

Kistos plc acquired Kistos NL1 and Kistos NL2 on 20 May 2021 for a total cash and non-cash consideration of €155MM. As part of the purchase price accounting based on the facts and circumstances at the date of acquisition, Kistos plc recognised €7.0MM of goodwill, €140.2MM of exploration and evaluation assets and €93.8MM of production licences. The goodwill is allocated to the exploration and evaluation assets across the entire portfolio of Kistos NL1 and Kistos NL2 assets. The production licences represents the producing Q10-A asset. The exploration and evaluation intangible assets has been recognised in respect of the Q11-B, Q10-B, Q10a oil, M10a, M11 and Q10-G prospects.

During the period post acquisition, Kistos plc had success in the Q10-A oil discovery with an initial production rate of 3,200 bbl/d, success in the side track of the Q10-A04 well and limited success in the Q11-B drilling. The Q11-B drilling targeted three reservoirs: Slochteren, Bunter and Zechstein. The Slochteren completed drilling just before the end of the year, whilst Bunter and Zechstein continued after the end of the year. The results of the drilling showed that the Slochteren was water bearing. The Bunter and the Zechstein were hydrocarbon bearing. As a result, the well was suspended pending further development studies to formulate an economic development. Given this and the fact that this information was not known at the time of the purchase price accounting an impairment review over the goodwill and exploration and evaluation assets has been performed. The impairment value has been determined using the higher of fair value less costs to sell and value in use. The fair value less costs to sell has been determined based on the nominal value of the licences when originally acquired. The value in use has been determined using a set of discounted cash flows of future revenue and expenditure at a weighted average cost of capital of 15% and forward gas prices at 31 December 2021 for the available years of 2022–2025 as published by ICIS with a 2% annual inflation rate thereafter.

As the value in use was greater than the determined fair value less costs to sell, the impairment value has been determined based thereon. The assets valued have been the revised Q11-B target (Bunter and Zechstein), Q10-B and Q10-G prospects, Q10-A oil discovery and the M10a-M11 prospects. The total valuation of these assets was €45.8MM compared to a total book value of €158.6MM. This has resulted in management recording an impairment of €119.8MM comprised of a full write down of the goodwill of €7.0MM and a €112.8MM impairment of the exploration and evaluation assets. A sensitivity on the remaining valuation indicates that a 10% fall in the gas price would result in a €7.9MM fall in the recoverable value.

# Note 16: Property, plant and equipment

| €'000 | Assets under construction | Production facilities including wells | Other | Total |
|---|---|---|---|---|
| **Opening balance** | - | - | - | - |
| Acquisition of Kistos NL2 (see note 14)* | 1,227 | 174,156 | 142 | 175,525 |
| Additions | 9,187 | 692 | 183 | 10,062 |
| Other | - | 151 | - | 151 |
| Reclassification | (10,414) | 10,414 | - | - |
| **Acquisition cost 31.12.2021** | - | **185,413** | **325** | **185,738** |
| **Opening balance depreciation and impairments** | - | - | - | - |
| Depreciation | - | (13,161) | (116) | (13,277) |
| Impairment | - | (1,234) | - | (1,234) |
| Reclassification | - | - | - | - |
| **Accumulated depreciation and impairments 31.12.2021** | - | **(14,395)** | **(116)** | **(14,511)** |
| **Book value 31.12.2021** | - | **171,018** | **209** | **171,227** |

* The fair value acquisition balance includes an amount of €93.8MM that relates to the step-up on assets acquired of Kistos NL2, these assets principally relate to the Q10 assets in production.

The reclassification in 2021 relates to the movement of assets to production facilities including wells following the start of production.

### Assets under construction

Assets under construction relate to wells drilled but not yet producing.

### Production facilities, including wells

An amount of €93.8MM has been included relating to step up in fair value following the acquisition of the Q10-A assets in production.

## Notes to the Consolidated Financial Statements

### Impairment

Impairment tests of individual cash-generating units are performed when impairment triggers are identified. Impairments identified are:

- Adjustment to the abandonment cost of Donkerbroek Hemrik (€0.35MM) for Kistos NL1 following a revision in cost estimates. As production from this asset has ceased there are no management judgements applied in arriving at this;
- For Kistos NL2, following the unsuccessful restimulation of well Q10-A06 the amount spent has been impaired (€1.43MM); and
- For Kistos NL2 the abandonment of the A04 drilling path (before drilling the side track) has resulted in an impairment of the costs originally capitalised of €6.92MM.

## Note 17: Other receivables

| €'000 | 31 December 2021 |
|---|---|
| Joint operator receivable | 3,920 |
| Other receivables | 2,014 |
| Prepayments | 163 |
| VAT receivable | 2,342 |
| **Total other receivables** | **8,439** |

Information about the company's exposure to credit risks, and impairment losses for other short-term receivables is included in note 29.

## Note 18: Cash and cash equivalents

Cash and cash equivalents consist of bank accounts and restricted cash balances. The restricted funds at the end of 2021 relate to a bank guarantee for the office lease in The Hague.

| €'000 | 31 December 2021 |
|---|---|
| Bank accounts | 77,266 |
| Restricted funds | 22 |
| **Cash and cash equivalents** | **77,288** |

## Note 19: Share capital

| €'000 | 31 December 2021 |
|---|---|
| Share capital | 9,627 |

The Group's policy is to manage a strong capital base so as to manage investor, creditor and market confidence and to sustain growth of the business. Management monitors its return on capital. There are currently no covenants related to the equity of the Group.

8,742,775 shares have been issued to Tulip Oil Holding B.V. in relation to the acquisition of Kistos NL1 and NL2.

### Share capital and premium analysis:

| | Number of shares | Issue price | Ordinary shares (£'000) | Share premium (£'000) | Merger reserve (£'000) | Ordinary shares (€'000) | Share premium (€'000) | Merger reserve (€'000) |
|---|---|---|---|---|---|---|---|---|
| 10 November 2020 | 8,500,000 | £0.50 | 850 | 3,400 | - | 987 | 3,949 | - |
| 25 November 2020 | 31,750,000 | £1 | 3,175 | 28,575 | - | 3,689 | 33,192 | - |
| 20 May 2021 | 42,613,743 | £1.55 | 4,261 | 49,113 | 12,677 | 4,951 | 57,040 | 14,734 |
| **Total** | **82,863,743** | | **8,286** | **81,088** | **12,677** | **9,627** | **94,181** | **14,734** |

## Note 20a: Share premium

| €'000 | 31 December 2021 |
|---|---|
| Share premium received in the period | 94,181 |
| **Total share premium** | **94,181** |

## Note 20b: Merger reserve

| €'000 | 31 December 2021 |
|---|---|
| Merger reserve arising on acquisition of Kistos NL1 and Kistos NL2 | 14,734 |
| **Total merger reserve** | **14,734** |

The merger reserve represents the difference between the value of shares issued as part of the total consideration of the acquisition of Kistos NL1 and the nominal value per share. Kistos plc has paid €15.75MM of the total consideration by issuing 8,742,775 shares to Tulip Oil Holding B.V. at a price of £1.55 per share. This created a merger reserve of €14.7MM.

Notes to the Consolidated Financial Statements

## Note 21: Hedge reserve

| €'000 | 31 December 2021 |
|---|---|
| Balance at the beginning of the year | - |
| Cost of hedging deferred and recognised in OCI | (11,781) |
| Deferred tax on hedge reserve in OCI | 5,891 |
| **Total hedge reserve** | **(5,890)** |

The hedging reserve represents the change in value of the hedged items (production) discounted cash flows at the forward gas prices curve between inception date, year end and fixed hedged instrument (100,000 MWh of production) discounted cash flow. Amounts that are effective and realised have been taken into the profit and loss account within gas sales (revenue). The hedge ineffectiveness has been recorded in other financial expenses (see note 10). The hedge ineffectiveness has arisen from a greater level of production downtime than initially forecast during a month resulting in a lower level of production compared to the fixed hedge instrument. The hedge reserve has been taxed at an effective rate of 50%.

Kistos NL2 held the following cash flow hedge at the balance sheet date:

| | Volume (MWh) | Price | Period of hedge |
|---|---|---|---|
| Cash flow hedge | 300,000 | €25 MWh | Jan–Mar 22 |

The hedge is equally distributed over each month at 100,000 MWh.

## Note 22: Translation reserve

| €'000 | 31 December 2021 |
|---|---|
| Translation reserve | 382 |

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

## Note 23: Proposed appropriation of result

The Group proposes to transfer the loss for the period of €40.1MM to retained earnings in accordance with Article 137 of Articles of Association. This article states that the profits are at the disposal of the shareholders.

## Note 24: Abandonment provision

| €'000 | 31 December 2021 |
|---|---|
| **Provisions at beginning of the period** | - |
| Acquisition of Kistos NL1 and NL2 | 14,158 |
| Accretion expense | 43 |
| Additions | 3,717 |
| Utilisation | (736) |
| Change in estimates and incurred liabilities | (6) |
| **Total abandonment provision at year end** | **17,176** |
| **Analysis of the abandonment provision:** | |
| Short term | 1,272 |
| Long term | 15,904 |
| **Total abandonment provision** | **17,176** |

Abandonment provisions are determined using an inflation rate of 1.0% and a discount rate of 0.5% in line with publicly available economic forecasts. The additions in 2021 mainly relate an additional abandonment provision for Q11-B and well Q10-A04-S1 for Kistos NL2 and Donkerbroek Hemrik for Kistos NL1. Utilisation relates to the partial abandonment of the A04 drilling path. A 0.25% increase in the discount rate results in a €0.4MM decrease in the abandonment provision.

## Notes to the Consolidated Financial Statements

# Note 25: Bond payable

| €'000 | Bond €90MM | Bond €60MM | Bond costs | Total |
|---|---|---|---|---|
| **Opening balance** | - | - | - | - |
| Acquisition of Kistos NL1 and NL2 (see note 14) | 86,497 | - | (1,080) | 85,417 |
| Proceed from borrowings | 3,000 | 60,000 | - | 63,000 |
| Transaction cost modification | - | - | (2,588) | (2,588) |
| Amortisation of bond costs | - | - | 700 | 700 |
| Unwinding effective interest rate ('EIR') impact €87MM bond | 502 | - | - | 502 |
| Unwinding EIR impact €90MM bond | 391 | - | - | 391 |
| EIR impact non-substantial modification | (2,348) | - | - | (2,348) |
| **Book value at 31.12.2021** | **88,042** | **60,000** | **(2,968)** | **145,074** |

During 2021, Kistos NL2 refinanced an existing €87MM bond with a new €90MM bond which is denominated in € and runs from May 2021 to November 2024. The bond modification calculation indicates that the modification is not substantial and hence the difference between the carrying value of the liability before the modification and the present value of the cash flows after the modification has been recognised (€2.35MM). The refinancing incurred a loss in the profit and loss account (loss on redemption of €0.8MM) disclosed under net finance costs (see note 10). This loss arises from payments made on redeeming the bond loan of €2.6MM, loss on release of the remaining discount carried on the bond prior to redemption (€0.5MM) offset by non-cash movements related to the effective interest rate (€2.3MM).

An additional €60MM bond that runs from May 2021 to May 2026, denominated in € with an interest rate of 9.15% per annum, was also issued in relation to the acquisition of Kistos NL2 and Kistos NL1 by Kistos plc. The principal falls due on May 2026 and interest is paid on a half yearly basis. Kistos NL1 and Kistos plc are Guarantors. Each guarantor irrevocably, unconditionally, jointly and severally:

- guarantees to the Bond Trustee the punctual performance by Kistos NL2 of all obligations related to the Bonds;
- agrees to make payment to the Bond Trustee on request in the event of non-payment by Kistos NL2, together with any default interest; and
- indemnifies the Bond Trustee against any cost, loss or liability incurred in respect of the obligations of Kistos NL2.

Kistos NL2 has issued a security in favour of the Bond Trustee over its assets for both the 2024 Bond and the 2026 Bond, including a pledge over all intercompany receivables between Kistos NL2 and Kistos NL1 and Kistos plc. In addition, a Netherlands Pledge has been provided to the Bond Trustee covering all receivables of Kistos NL2 and Kistos plc.

The €87MM bond was originally issued at a 98% par value. The 2% discount on the bond resulted in an unwinding of the bond discount to reach the par value at maturity date. Interest on this bond was paid quarterly and funded in advance in a restricted bank account.

### Terms and repayment schedule

| | | | | 31 December 2021 | |
|---|---|---|---|---|---|
| €'000 | Currency | Nominal interest rate | Year of maturity | Face value | Carrying amount |
| Secured bond | € | 8.75% | 2024 | 90,000 | 88,042 |
| Secured bond | € | 9.15% | 2026 | 60,000 | 60,000 |
| **Total interest-bearing liabilities** | | | | **150,000** | **148,042** |

### Financial covenants

| **€90MM bond** | Value/range | Unit |
|---|---|---|
| **Issuer (Kistos NL2)** | | |
| Minimum liquidity | 10,000,000 | At all times |
| Maximum leverage ratio | 2.50 | From and including 1 January 2022 |
| **Group (Kistos consolidated)** | | |
| Minimum liquidity | 20,000,000 | At all times |
| Maximum leverage ratio | 3.50 | From and including 30 June 2021 |

| **€60MM bond** | Value/range | Unit |
|---|---|---|
| **Issuer (Kistos NL2)** | | |
| Minimum liquidity | 10,000,000 | At all times |
| Maximum leverage ratio | 2.50 | From and including 1 January 2022 |
| **Group (Kistos consolidated)** | | |
| Minimum liquidity | 20,000,000 | At all times |
| Maximum leverage ratio | 3.50 | From and including 30 June 2021 |

## Notes to the Consolidated Financial Statements

Kistos plc maximum leverage ratio 3.50:

On 31 December 2021, Kistos plc had a leverage ratio of 0.68 calculated as follows:

| Covenant calculation | 2021 |
|---|---|
| Kistos Group pro forma EBITDA for the year 2021 (see note 9) | 102,862 |
| Debt at 31 December 2021 (see note 25) | 148,042 |
| Cash and cash equivalents at 31 December 2021 | (77,266) |
| Net debt at 31 December 2021 | 70,776 |
| **Leverage ratio (EBITDA/Net debt)** | **0.69** |

# Note 26: Deferred tax liability

| €'000 | 31 December 2021 |
|---|---|
| Opening balance | - |
| Acquisition balance (see note 14) | 117,000 |
| Profit and loss account | (59,712) |
| **At 31 December 2021** | **57,288** |

Following acquisition of Kistos NL1 and Kistos NL2, the fair value of the deferred tax liability amounts to €117MM. The deferred tax liability is calculated based on a 50% tax rate that is applied to the fair value uplift of the intangibles assets. At 31 December 2021 the deferred tax liability has been reduced by €59.7MM to account for the impairment booked on the exploration and evaluation assets recorded within intangible assets.

Exploration licenses will be depreciated once classified as a producing asset.

# Note 27: Trade payables and accrued expenses

| €'000 | 31 December 2021 |
|---|---|
| Trade payables | 9,018 |
| Other accrued expenses | 14,461 |
| **Total trade payables and accrued expenses** | **23,479** |

Trade payables are unsecured and generally paid within 30 days. Accrued expenses are also unsecured and represents estimates of expenses incurred but where no invoice has yet been received. The carrying value of trade payables and other accrued expenses are considered to be fair value given their short-term nature.

# Note 28: Other liabilities

| €'000 | 31 December 2021 |
|---|---|
| Bond interest payable | 1,854 |
| Hedge liability | 11,781 |
| Wage tax payable | 76 |
| Contingent consideration (see note 14) | 15,000 |
| Payroll liabilities | 21 |
| Right of use liability | 91 |
| **Total other liabilities** | **28,823** |

### Interest payable

The interest over the long-term bond is payable per half year. The balance of €1.8MM presented as part of the other current liabilities relates to the interest over the long-term bond payable as at year end.

### Hedge liability

The hedge liability of €11,781 thousand represents the potential fair value liability in respect of the cash flow hedge for the remaining period of the contract. This is calculated by taking the delta in volumes between produced and the fixed hedged item against future gas prices as determined using ICIS forward gas prices and a discount factor based on remaining months.

# Note 29: Financial instruments

### Financial risk management objectives

The Group is exposed to a variety of risks including commodity price risk, interest rate risk, credit risk, foreign currency risk and liquidity risk. The use of derivative financial instruments (derivatives) is governed by the Group's policies approved by the Kistos Board. Compliance with policies and exposure limits are monitored and reviewed internally on a regular basis. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

## Notes to the Consolidated Financial Statements

### Fair values of financial assets and liabilities

The Group considers the carrying value of all its financial assets and liabilities to be materially the same as their fair value. The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

| €'000 | Financial assets at amortised cost | Other financial liabilities | Fair value hierarchy |
|---|---|---|---|
| **Financial liabilities** | | | |
| Bond payable | - | 145,074 | Level 3 |
| Hedge liability | - | 11,781 | Level 3 |
| **Total financial liabilities** | **-** | **156,855** | |

The Group has no material financial assets that are past due. No financial assets are impaired at the balance sheet date.

### Risk management framework

The Kistos Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Kistos Board is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls but also to monitor risks and adherence to limits. Risk management policies and systems are reviewed when needed to reflect changes in market conditions and the Group's activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Kistos Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

### Commodity price (market) risk

Market risk is the risk that changes in market prices (e.g. foreign exchange rates, interest rates and equity prices) will affect the Company's profit and loss account. The objective of material risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

During 2021 or 2020, the Company has not used derivatives to mitigate the commodity price risk associated with its underlying oil and gas revenues. Where such transactions are carried out, they are done based on the Company's guidelines.

### Cash flow hedge

During the first half of 2021, Kistos NL2 hedged its monthly production (hedged item) at an amount of 100,000 MWh per month at a price of €25/MWh (hedged instrument) for the nine-month period from July 2021 to March 2022. Kistos NL2 engaged in this cash flow hedge to cover the potential volatility of the gas price and the impact that this may have on its capital expenditure programme. For one month during 2021, the hedge proved to be ineffective due to a production shortfall greater than estimated at inception of the contract and as a result a hedge ineffectiveness of €625 thousand has been recorded under other finance costs (see note 10).

### Cash flow and interest rate risk

The Group's principal exposure to interest costs relates to the bond issues. The €90MM bond carries a fixed interest rate of 8.75%. The €60MM bond carries a fixed interest rate of 9.15%. No interest rate hedging has been taken out by the Group as management believes the effects of an adverse change in the interest rates to be low. The Group's financial assets and liabilities, excluding trade and other receivables and trade and other payables, at 31 December 2021 and 2020 were all denominated in €. No other currencies of cash or debt are held.

The following table demonstrates the sensitivity of the Company's bond loan of €90MM to reasonably possible movements in interest rates:

| | | Effect on finance costs | Effect on equity |
|---|---|---|---|
| €'000 | Market movement | 14 October 2020 to 31 December 2021 | 31 December 2021 |
| Interest rate | +10 basis points | (90) | 49 |
| Interest rate | -10 basis points | 90 | (49) |

No sensitivity has been included on the €60MM loan as the arrangements put in place are back-to-back and Kistos plc has no current intention of repaying the loan.

Cash flow risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing cash flow is to currently utilise the funds residing as cash balances and the cash generated from operations.

## Notes to the Consolidated Financial Statements

### Expected credit loss assessment

The Group has a credit policy that governs the management of credit risk, including the establishment of counterparty credit limits and specific transaction approvals. The primary credit exposures for the Group are its receivables generated by the marketing of gas and condensate and amounts due from joint operators. These exposures are managed at the Group level. The Group's oil and gas sales are predominantly made to international oil market participants including the oil majors, trading houses and refineries. Joint operators are predominantly international major oil and gas market participants. Material counterparty evaluations are conducted utilising international credit rating agency and financial assessments. Where considered appropriate, security in the form of trade finance instruments from financial institutions with appropriate credit ratings, such as letters of credit, guarantees and credit insurance, are obtained to mitigate the risks.

### Cash and cash equivalents

The Group held cash and cash equivalents of €77.3MM at 31 December 2021. The cash and cash equivalents are held with bank and financial institution counterparties which are rated at least A-.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on external credit ratings of the counterparties.

The Group uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for debt securities.

The Group has not recognised an allowance for credit losses over cash and cash equivalents in 2021.

### Foreign currency risk

The Group conducts and manages its business predominately in euros, the operating currency of the industry in which it operates. From time to time the Group undertakes certain transactions denominated in other currencies. There were no foreign currency financial derivatives in place at 31 December 2021.

As at 31 December 2021, there were no material monetary assets or liabilities of the Group that were not denominated in the functional currency of the respective subsidiaries.

The Group does not see material movements arising from foreign currency fluctuations.

### Liquidity risk

The Group manages its liquidity risk using both short- and long-term cash flow projections, supplemented by debt financing plans and active portfolio management. Ultimate responsibility for liquidity risk management rests with the Kistos Board, which has established an appropriate liquidity risk management framework covering the Group's short-, medium- and long-term funding and liquidity management requirements.

Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's producing assets and delays to development projects. In addition to the Group's operating cash flows, portfolio management opportunities are reviewed to potentially enhance the financial capability and flexibility of the Group.

The Group's forecast, taking into account the risks described above, show that the Group will be able to operate within its current debt facilities and have sufficient financial headroom for the 12 months from the date of approval of the 2021 Annual Report and Accounts.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

| €'000 | Weighted average effective interest rate (%) | 1–3 months | 3 months to 1 year | 1–5 years | 5 years | Total |
|---|---|---|---|---|---|---|
| **31 December 2021** | | | | | | |
| Bond €90MM | 8.75 | - | - | 88,042 | - | 88,042 |
| Bond €60MM | 9.15 | - | - | 60,000 | - | 60,000 |
| Other non-current liabilities | - | - | - | 31 | - | 31 |
| Tax payable | - | - | 14,980 | - | - | 14,980 |
| Other liabilities | - | 97 | 16,945 | - | - | 17,042 |
| Trade payables | - | 9,018 | - | - | - | 9,018 |
| **Total** | | **9,115** | **31,925** | **148,073** | **-** | **189,113** |

Notes to the Consolidated Financial Statements

## Note 30: Related party transactions

Details of transactions between the Group and other related parties are disclosed below.

### Compensation of key management and key management personnel

The Directors of the Kistos Group and management personnel are the only key management members as defined by IAS 24 – Related Party Disclosures. This function of the Directors of Kistos NL1 and Kistos NL2 is provided by certain management companies and staff employed by Kistos plc for which recharges to the Group companies based on time spent are implemented.

The Group is wholly and directly controlled by Kistos plc.

Transactions with other related parties are set out below:

| €'000 | Transaction type | 14 October 2020 to 31 December 2021 |
|---|---|---|
| Key management | Management fees | 965 |
| Directors of subsidiaries | Management fees | 42 |
| Key management | Loans | 238 |
| **Outstanding balances receivable (payable) at end of year:** | **Transaction type** | **31 December 2021** |
| Directors of subsidiaries | Management fees | 7 |
| Key management | Loans | 238 |

All outstanding balances except the €238 thousand interest-free loan with one of the Executive Directors and a rent-free period up to June 2021 with one of the Executive Directors are priced on an arm's length basis and are to be settled in cash. No expense has been recognised in the current year for bad and doubtful debts in respect of amounts owed by related parties.

## Note 31: Contingencies

As of 1 April 2021, Kistos NL1 and Kistos NL2 are part of a fiscal unity for corporate income tax purposes where each entity is individually liable for the tax payments. Kistos NL1 is the head of the fiscal unity. The fiscal unity with Tulip Oil Holding B.V. ended on 31 March 2021.

At 31 December 2021, the drilling programme has not been completed. The outstanding commitment at year end related to the drilling rig and associated services amounts to €1.4MM.

Details of the contingent milestone considerations related to the acquisition of Kistos NL1 can be found in note 13.

## Note 32: Reconciliation of investing cash flows

| €'000 | Note | 14 October 2020 to 31 December 2021 |
|---|---|---|
| Additions and other movements to fixed assets | 16 | (23,930) |
| Non-cash abandonment (other movements)/additions | 24 | 3,717 |
| Capitalised interest | 10 | 940 |
| Movement in accruals and trade payables | | (685) |
| Acquisition of Kistos NL1 and Kistos NL2 | 14 | (100,696) |
| **Investing cash flow** | | **(120,654)** |

## Note 33: Reconciliation of financing cash flows

| €'000 | Share capital | Share premium & merger reserve | Bond €90MM | Bond €60MM | Amortised bond costs | Other non-current liabilities | Other liabilities |
|---|---|---|---|---|---|---|---|
| Opening balance | - | - | - | - | - | - | - |
| Acquisition balance | - | - | 86,497 | - | (1,080) | 110 | 2,438 |
| Financing cash flows | 9,627 | 92,815 | 3,000 | 60,000 | (2,933) | (79) | (2,627) |
| Non-cash movements | - | 16,100 | (1,455) | - | 1,045 | - | 29,012 |
| **At 31.12.2021** | **9,627** | **108,915** | **88,042** | **60,000** | **(2,968)** | **31** | **28,823** |

Cash outflow related to the bond redemption costs amounts to €2,627 thousand.

## Notes to the Consolidated Financial Statements

# Note 34: Auditor's remuneration

During the year, the Group obtained the following services from the Group's auditors:

| €'000 | Year ended 31 December 2021 |
|---|---|
| **Audit fees** | |
| Audit of the consolidated and company financial statements (BDO LLP) | 176 |
| Audit of the financial statements of the subsidiaries (BDO Audit & Assurance B.V.) | 227 |
| **Non-audit fees** | |
| Due diligence services (BDO LLP) | 240 |
| Tax services (BDO LLP) | 12 |
| Tax services (KPMG Accountants N.V.) | 10 |
| **Total** | **665** |

# Note 35: Subsequent events

There are no adjusting events subsequent to the end of the year. The Q11-B drilling campaign was completed post year end with the rig being safely moved away from Q10-A in February 2022. The Q11-B drilling was targeting three main reservoirs – Slochteren, Bunter and Zechstein. Prior to the end of the year, the Slochteren was determined to be water bearing. After the year end hydrocarbons were flowed from both the Bunter and the Zechstein resulting in the well being suspended pending further development studies. Initial economic analysis indicates that the book value at 31 December 2021 of Q11-B can be recovered through a development.

The recent developments in Ukraine have no impact on the customer or supplier base for Kistos NL2. The increase in the gas price has had a positive impact on the revenue of the Company in 2022.

In March 2022, Kistos NL2 used the surplus cash on its balance sheet to purchase €27.7MM of the €90MM bonds.

After the period end, on 31 January 2022, Kistos entered into an acquisition agreement with TotalEnergies to acquire a 20% interest in the Greater Laggan Area West of Shetland. Completion is subject to partner and OGA approval. The consideration payable in respect of this transaction, which Kistos Group will finance from internal resources, comprises cash of US$125MM (subject to customary closing adjustments), and further contingent cash payments as follows:

- In the event the average day-ahead gas price at the National Balancing Point exceeds 150p/therm in 2022, up to US$40MM will be payable in January 2023.
- Should Benriach be developed, Kistos will pay US$0.25 per MMBtu of net 2P reserves after first gas.

# Note 36: Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow.

## Notes to the Consolidated Financial Statements

### a) Basis of consolidation

#### *(i) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

#### *(ii) Non-controlling interests*

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### *(iii) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### b) Foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates on the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within other operating expenses or finance costs.

### c) Revenue

Sales revenue represents the sales value, net of VAT, of the Group's share of gas sales in the year. Revenue is recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### d) Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity accounted investees and income taxes.

### e) Joint operations

The Group is engaged in oil and gas exploration, development and production through unincorporated joint arrangements; these are classified as joint operations in accordance with IFRS 11. The Group accounts for its share of the assets, liabilities, revenue and expenses of these joint operations. In addition, where Kistos acts as Operator to the joint operation, the gross liabilities and receivables (including amounts due to or from non-operating partners) of the joint operation are included in the Group's balance sheet.

### f) Finance income and finance costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Finance costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount. Arrangement fees and issue costs are deducted from the debt proceeds on initial recognition of the liability and are amortised and charged to the income statement as finance costs over the term of the debt.

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

## Notes to the Consolidated Financial Statements

### g) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. For purposes of corporate income tax, Kistos NL1 B.V. formed a fiscal unity with its subsidiary Kistos NL2 B.V. as of 1 April 2021. The companies are separately liable for tax and therefore account for their tax charge/credit on a standalone basis after taking into account the effects of horizontal compensation within the fiscal union that is applicable from 1 April 2021.

Current and deferred tax are provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Interest and penalties related to income taxes, including uncertain tax treatments, are accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

#### *Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

#### *Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

### h) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### *(i) As a lessee*

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

## Notes to the Consolidated Financial Statements

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or, is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the balance sheet.

#### Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets (less than €5,000) and short-term leases (period less than one year), including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### i) Inventory

Inventories, other than oil products, are stated at the lower of cost and net realisable value. Cost is determined by the first in first-out method and comprises direct purchase costs, costs of production and transportation and manufacturing expenses. Net realisable value is determined by reference to prices existing at the balance sheet date.

Oil product is stated at net realisable value and changes in net realisable value are recognised in the income statement.

### j) Intangible assets and goodwill

***Recognition and measurement***

#### Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

#### Other intangible assets

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

## Notes to the Consolidated Financial Statements

**Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

The Group allocates goodwill to cash-generating units (CGUs) or groups of CGUs that represent the assets acquired as part of the business combination. The fields (licences) within the Group are considered CGUs for the purposes of impairment testing.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount, using the 'Value in Use' method, of each CGU (or group of CGUs) to which goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

### k) Exploration, evaluation and production assets

The Group adopts the successful efforts method of accounting for exploration and evaluation costs. Pre-license costs are expensed in the period in which they are incurred. All licence acquisition, exploration and evaluation costs and directly attributable administration costs are initially capitalised by well, field or exploration area, as appropriate. Interest payable is capitalised insofar as it relates to specific project financing.

These costs are written off as exploration costs in the income statement unless commercial reserves have been established or the determination process has not been completed and there are no indications of impairment.

All field development costs are capitalised as property, plant and equipment. Property, plant and equipment related to production activities are depreciated in accordance with the Group's depreciation accounting policy.

Where the Company drills a sidetrack from an original well, the costs of the original well are estimated and written off, if the well is not hydrocarbon producing.

### l) Commercial reserves

P1 developed producing and P2 reserves are estimates of the amount of oil and gas that can be economically extracted from the Group's oil and gas assets. The Group estimates its reserves using standard recognised evaluation techniques. The estimate is reviewed at least annually by management and is reviewed as required by independent consultants.

### m) Depreciation based on depletion

All expenditure carried within each field is depreciated from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, generally on a field-by-field basis or by a Group of fields which are reliant on common infrastructure. Costs used in the unit of production calculation comprise the net book value of capitalised costs incurred to date. Changes in the estimates of commercial reserves are dealt with prospectively.

Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs.

In order to discount the future cash flows the Group calculates CGU-specific discount rates. The discount rates are based on an assessment of the Group's post-tax Weighted Average Cost of Capital (WACC). The post-tax WACC is subsequently grossed up to a pre-tax rate.

Where there is evidence of economic interdependency between fields, such as common infrastructure, the fields are grouped as a single CGU for impairment purposes.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any amortisation that would have been charged since the impairment.

### n) Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

***Onerous contracts***

A provision for onerous contracts is measured at the present value of the lower for the expected cost of terminating the contract and the expected net cost of continuing with the contract which is determined based on incremental costs necessary to fulfil the obligation under the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

## Notes to the Consolidated Financial Statements

***Abandonment provision***

An abandonment provision for decommissioning is recognised in full when the related facilities or wells are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of abandonment, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements.

Changes in the estimated timing of abandonment or abandonment cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the abandonment provision is included as a finance cost.

### o) Property, plant and equipment

***Recognition and measurement***

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separable items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in the profit and loss account.

***Subsequent expenditure***

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

***Depreciation***

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the aforementioned depreciation based on depletion accounting policy for all assets related to oil and gas fields and straight-line method over the estimated useful lives for all other property, plant and equipment. Depreciation is recognised in the profit and loss account.

The estimated useful lives of property, plant and equipment depreciated using the straight-line method is three to five years. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### p) Employee benefits

***Short-term employee benefits***

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

***Pension plans***

The Group does not have any pension plans. Some employees are paid a pension contribution as part of their remuneration and are responsible for organising their pensions personally.

***Termination benefits***

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

### q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### r) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

## Notes to the Consolidated Financial Statements

### s) Bond modification

When the Group exchanges with an existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. The terms are substantially different if the discounted presentfair value of the cash flows under the new terms, including any transaction costs paid and discounted using the original effective interest rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability including transaction costs before the modification; and (2) the present value of the cash flows after modification is recognised through the profit and loss account as a modification gain or loss.

### t) Financial Instruments

#### *Recognition and Initial Measurement*

Trade receivables, unbilled revenue and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

#### *Classification and Subsequent Measurement*

**Financial assets**

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**Financial assets – Subsequent measurement and gains and losses:**

- **Financial assets at FVTPL –** These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
- **Financial assets at amortised cost –** These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
- **Debt investments at FVOCI –** These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
- **Equity investments at FVOCI –** These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

## Notes to the Consolidated Financial Statements

**Financial liabilities – Classification, subsequent measurement and gains and losses**
Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

### *Derecognition*

**Financial assets**
The Group derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
  - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
  - in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its balance sheet, but, retains either all of substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

**Financial liabilities**
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the profit and loss account.

**Share capital – Ordinary shares**
Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS12.

**Derivative financial instruments and hedge accounting**
The Group holds derivative financial instruments to hedge cash flow risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in commodity prices and certain derivatives and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

The Group has adopted the Phase 2 amendments. When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of interbank offered rate (IBOR) reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Group amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. For this purpose, the hedge designation is amended only to make one or more of the following changes:

- designating an alternative benchmark rate as the hedged risk;
- updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
- updating the description of the hedging instrument.

The Group amends the description of the hedging instrument only if the following conditions are met:

- it makes a change required by IBOR reform by changing the basis for determining the contractual cash flows of the hedging instrument or using another approach that is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- the original hedging instrument is not derecognised.

The Group amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

## Notes to the Consolidated Financial Statements

If changes are made in addition to those changes required by IBOR reform described above, then the Group first considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Group amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

When the interest rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Group deems that the hedging reserve recognised in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

**Cash flow hedge**

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts (forward points) is separately accounted for as a cost of hedging and recognised in a costs of hedging reserve within equity.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

### u) Impairment

***Non-derivative financial assets***

The Group recognises loss allowances for expected credit losses (ECLs) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (ie the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

## Notes to the Consolidated Financial Statements

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

**Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (ie the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

**Credit-impaired financial assets**

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or being more than 90 days past due;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

**Presentation of allowance for ECL in the balance sheet**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

### *Write-off*

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

### *Non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### v) Fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

## Notes to the Consolidated Financial Statements

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – ie the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

### w) Standards issued that are not effective

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements.

A. Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – eg leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Group accounts for deferred tax on leases and decommissioning liabilities applying the ‘integrally linked’ approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the balance sheet. Under the amendments, the Group will recognise a separate deferred tax asset and a deferred tax liability. There will be no impact on retained earnings on adoption of the amendments.

B. Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied.

At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. At 31 December 2021 the Group did not have any onerous contracts.

C. Other standards

The following new and amended standards are not expected to have a significant impact on the Group’s financial statements:

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16);
- Annual improvements to IFRS Standards 2018-2020;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Reference to Conceptual Framework (Amendments to IFRS 3);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2); and
- Definition of Accounting Estimates (Amendments to IAS 8).

### x) Operating segments

As the Group currently has only one revenue stream it does not recognise any separate reportable segments.

# Company Financial Statements

## Company balance sheet as at 31 December 2021

| €'000 | Note | 31 December 2021 |
|---|---|---|
| **Non-current assets** | | |
| Investments in subsidiaries | 3 | 190,186 |
| | | **190,186** |
| **Current assets** | | |
| Other receivables | 4 | 568 |
| Cash and cash equivalents | 5 | 31,610 |
| | | **32,178** |
| **Total assets** | | **222,364** |
| **Equity** | | |
| Share capital | 6 | 9,627 |
| Share premium | 7a | 94,181 |
| Merger reserve | 7b | 14,734 |
| Translation reserve | 8 | 1,641 |
| Retained earnings | | 23,001 |
| **Total equity** | | **143,184** |
| **Non-current liabilities** | | |
| Interest-bearing loans from affiliates | 9 | 60,000 |
| | | **60,000** |
| **Current liabilities** | | |
| Trade payables | | 344 |
| Liabilities against affiliates | | 2,353 |
| Accrued expenses | | 1,462 |
| Other liabilities | 10 | 15,021 |
| | | **19,180** |
| **Total liabilities** | | **79,180** |
| **Total equity and liabilities** | | **222,364** |

The notes on pages 71 to 74 are an integral part of these financial statements.

The profit of the Company for the period amounts to €25.4MM.

## Company changes in equity for the period from 14 October 2020 to 31 December 2021

| €'000 | Share capital | Share premium | Merger reserve | Translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **Opening balance** | **-** | **-** | **-** | **-** | **-** | **-** |
| Movement in the period | - | - | - | 1,641 | - | 1,641 |
| Profit/(loss) for the period | - | - | - | - | 25,356 | 25,356 |
| **Other comprehensive income** | **-** | **-** | **-** | **1,641** | **25,356** | **26,997** |
| **Transactions with owners:** | | | | | | |
| Shares issued in the period | 9,627 | 94,181 | 14,734 | - | - | 118,542 |
| Shares issue costs | - | - | - | - | (2,355) | (2,355) |
| **Total transactions with owners** | **9,627** | **94,181** | **14,734** | **-** | **(2,355)** | **116,187** |
| **Equity as of 31.12.2021** | **9,627** | **94,181** | **14,734** | **1,641** | **23,001** | **143,184** |

## Company cash flow for the period from 14 October 2020 to 31 December 2021

| €'000 | Note | 14 October 2020 to 31 December 2021 |
|---|---|---|
| **Cash flow from operating activities** | | |
| **Profit/(loss) for the period** | | **25,356** |
| Net finance costs | | 3,372 |
| Result in subsidiary | 3 | (34,104) |
| (Increase)/decrease in trade and other receivables | | 2,135 |
| Increase/(decrease) in trade, other payables and provisions | | (1,010) |
| **Net cash flow from operating activities** | | **(4,251)** |
| **Cash flow from investing activities** | | |
| Cash paid to acquire subsidiary | 14[1] | (124,225) |
| **Net cash flow from investing activities** | | **(124,225)** |
| **Cash flow from financing activities** | | |
| Loan from subsidiary | 9 | 60,000 |
| Proceeds from share issue | 7 | 102,441 |
| Costs incurred in share issue | 7 | (2,355) |
| **Net cash flow from financing activities** | | **160,086** |
| **Increase/(decrease) in cash and cash equivalents** | | **31,610** |
| Cash and cash equivalents opening | 5 | - |
| **Cash and cash equivalents at 31 December 2021** | | **31,610** |

1. Consolidated financial statements.

# Notes to the Company Financial Statements

## Note 1: General

These company financial statements and the consolidated financial statements together constitute the statutory financial statements of Kistos plc (hereafter: 'the Company'). The financial information of the Company is included in the consolidated financial statements, as presented on pages 41 to 69.

## Note 2: Basis of preparation

The financial statements of Kistos plc for the extended year from 14 October 2020 to 31 December 2021 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006.

The Company's financial statements were authorised for issue by the Board on 6 April 2022.

Under s408 of the UK Companies Act 2006, the Company has taken an exemption to not report its profit and loss account for the period ended 31 December 2021.

The principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the Company financial statements of the Company are the same as those applied for the consolidated financial statements. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities. In case no other principles are mentioned, refer to the accounting principles as described in the consolidated financial statements. For an appropriate interpretation of these statutory financial statements, the company financial statements should be read in conjunction with the consolidated financial statements.

Information on the use of financial instruments and on related risks for the group is provided in the notes to the consolidated financial statements of the group.

The parent company financial statements have been presented in euro despite its functional currency being GBP to align with its principal subsidiary who has a functional currency of euro. All amounts in the company financial statements are presented rounded to the nearest €1 thousand, unless stated otherwise.

### a) Participating interests in group companies

Group companies are all entities in which the Company has directly or indirectly control. Group companies at 31 December 2021 are Kistos NL1 B.V., Kistos NL2 B.V. and Kistos Energy Ltd; these companies are all wholly and directly controlled by Kistos plc. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the group company and has the ability to affect those returns through its power over the group company. Group companies are recognised from the date on which control is obtained by the Company and derecognised from the date that control by the Company over the group company ceases. Participating interests in group companies are accounted for in the company financial statements according to the equity method under IAS 27.

Participating interests with a negative net asset value are valued at nil. This measurement also covers any receivables provided to the participating interests that are, in substance, an extension of the net investment. In particular, this relates to loans for which settlement is neither planned nor likely to occur in the foreseeable future. A share in the profits of the participating interest in subsequent years will only be recognised if and to the extent that the cumulative unrecognised share of loss has been absorbed. If the Company fully or partially guarantees the debts of the relevant participating interest, or if has the constructive obligation to enable the participating interest to pay its debts (for its share therein), then a provision is recognised accordingly to the amount of the estimated payments by the Company on behalf of the participating interest.

### b) Share in net result of participating interests

The share in the result of participating interests consists of the share of the Company in the result of these participating interests. Results on transactions involving the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are eliminated to the extent that they can be considered as not realised.

The Company makes use of the option to eliminate intragroup expected credit losses against the book value of loans and receivables from the Company to participating interests, instead of elimination against the equity value/net asset value of the participating interests.

## Notes to the Company Financial Statements

## Note 3: Investments in subsidiaries

| €'000 | 31 December 2021 |
|---|---|
| **Opening balance** | - |
| Acquisition of Kistos NL1 | 154,975 |
| Share of result of participating interests | 34,104 |
| Other | 290 |
| Translation currency difference | 817 |
| **Balance at the end of the year** | **190,186** |

The Company, seated in London, is the holding company and has the following financial interests:

| Name of subsidiary | Principal activity | Place of incorporation and operation | Proportion of ownership interest and voting power held by the Group |
|---|---|---|---|
| Kistos NL1 B.V. | Onshore and offshore exploration and production of hydrocarbon volumes | The Hague, Netherlands | 100% |
| Kistos NL2 B.V. | Offshore exploration and production of hydrocarbon volumes | The Hague, Netherlands | 100% |
| Kistos Energy Ltd. | Management consultancy activities other than financial management | London, United Kingdom | 100% |

Kistos Energy Ltd. registered at Companies House with number 12859749 is included in the consolidated financial statements. It is entitled to, and has opted to take, exemption from the requirement for its individual accounts to be audited under s479A of the Companies Act relating to subsidiary companies.

## Note 4: Other receivables

| €'000 | 31 December 2021 |
|---|---|
| Other receivables | 417 |
| Prepayments | 65 |
| VAT receivable | 86 |
| **Total other receivables** | **568** |

Information about the Company's exposure to credit risks, and impairment losses for other short-term receivables is included in Note 13 Financial instruments.

## Note 5: Cash and cash equivalents

The item 'Cash and cash equivalents' consists of bank accounts and cash in hand.

| €'000 | 31 December 2021 |
|---|---|
| Bank accounts | 31,610 |
| **Cash and cash equivalents** | **31,610** |

## Note 6: Share capital

Refer to note 19 in the consolidated financial statements for further details regarding share capital.

## Note 7a: Share premium

Refer to note 20a in the consolidated financial statements for further details regarding share premium.

## Note 7b: Merger reserve

Refer to note 20b in the consolidated financial statements for further details regarding merger reserve.

## Note 8: Translation reserve

| €'000 | 31 December 2021 |
|---|---|
| Translation reserve | 1,641 |

The translation reserve comprises all foreign currency differences arising from the translation

## Notes to the Company Financial Statements

of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

# Note 9: Interest-bearing loans from subsidiaries

| €'000 | 31 December 2021 |
|---|---|
| **Opening balance** | - |
| Loan from subsidiary | 60,000 |
| **Balance at the end of the year** | **60,000** |

The details of the interest-bearing loan from Kistos NL2 are as follows:

| | | | | | 31 December 2021 |
|---|---|---|---|---|---|
| €'000 | Currency | Nominal interest rate | Year of maturity | Face value | Carrying amount |
| Unsecured term loan | € | 9.15% | 2026 | 60,000 | 60,000 |

The intercompany facility agreement has an ultimate repayment term equal to that of the €60MM bond but Kistos plc also has the ability to make early repayments as it wishes.

# Note 10: Other liabilities

Other liabilities mainly comprises the contingent consideration recognised on acquisition of Kistos NL1 and Kistos NL2. At the year end these amounts have not yet been paid and are due to be paid in 2022.

# Note 11: Proposed appropriation of result

The Company proposes to transfer the profit for the period of €25.4MM to retained earnings in accordance with Article 137.1 of Articles of Association. Excluding the result from the subsidiary, the Company generated a loss for the period of €8.7MM.

# Note 12: Financial instruments

### General

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

In the notes to the consolidated financial statements information is included about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. These risks, objectives, policies and processes for measuring and managing risk, and the management of capital apply also to the separate financial statements of Kistos plc. Further quantitative disclosures are included below.

### Credit risk

Credit risk arises from cash balances and contractual cash flows of debt investments carried at amortised cost and at fair value through profit or loss (FVTPL). The cash and cash equivalents are held with bank and financial institution counterparties which are rated at least A-.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on external credit ratings of the counterparties.

### Fair value

The fair values of the financial instruments recognised on the balance sheet, including accounts receivable, cash at bank and in hand and current liabilities, are approximately equal to their

## Notes to the Company Financial Statements

carrying amounts.

# Note 13: Related party transactions

All related party transactions are conducted on an 'at arm's-length' transaction basis. The following transactions occurred with related parties:

| €'000 | Transaction type | 14 October 2020 to 31 December 2021 |
|---|---|---|
| Kistos NL1 B.V. | Services provided | 63 |
| Kistos NL2 B.V. | Interest payable | (3,452) |
| Kistos NL2 B.V. | Tax receivable | 851 |
| Kistos NL2 B.V. | Services provided | 1,117 |
| Kistos NL2 B.V. | Services received | (81) |
| **Outstanding balances receivable (payable) at end of year:** | **Transaction type** | **31 December 2021** |
| Kistos NL1 B.V. | Services provided | 63 |
| Kistos NL2 B.V. | Interest payable | (3,452) |
| Kistos NL2 B.V. | Services received | (81) |
| Kistos NL2 B.V. | Services provided | 1,117 |
| Kistos NL2 B.V. | Interest-bearing loans from affiliates | 60,000 |

# Note 14: Off-balance sheet assets and liabilities

There are no off balance sheet assets or liabilities at 31 December 2021.

# Independent Auditor's Report to the Members of Kistos plc

### Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the period from 14 October 2020 to 31 December 2021;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Kistos plc (the 'Parent Company') and its subsidiaries (the 'Group') for the period ended 31 December 2021 which comprise the Consolidated profit and loss account and Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flow, notes to the Consolidated financial statements, the Company balance sheet, the Company changes in equity, the Company cash flow and notes to the Company financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting has been included in the key audit matters section below.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

### Overview

| | |
|---|---|
| Coverage | *100% of Group profit before tax*<br>*100% of Group revenue*<br>*100% of Group total assets* |
| Key audit matters | Period ended 31 December 2021<br>◆ Acquisition of Tulip Oil Netherlands<br>◆ Accounting for cashflow hedging contract<br>◆ Application of the Dutch Mining Act (Mijnbouwwet), state profit share tax and marginal field investment allowance in the calculation of the tax charge<br>◆ Carrying value of exploration and evaluation assets and related goodwill<br>◆ Going concern |
| Materiality | *Group financial statements as a whole*<br>€4.6m based on 1.29% of Total Assets. |

### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of Management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

In approaching the audit, we considered how the Group is organized and managed.

We assessed there to be two significant components, being the Parent Company (Kistos plc), and Kistos NL1 B.V., which is the Dutch sub-consolidation of the Kistos NL1 B.V. and Kistos NL2 B.V. entities operating the Q10-A platform and holding key exploration licenses including those pertaining to the Q11-B, M10/M11 and Q10 Gamma fields. The remaining components were considered to be non-significant and were subject to analytical review procedures by BDO UK.

The Parent Company was subject to a full scope audit by the Group auditor. A full scope audit for Group reporting and statutory purposes was performed by a BDO network firm in the Netherlands on the Kistos NL1 consolidated entity.

### *Our involvement with component auditors*

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with component auditors included the following:

- Planning meetings were held with the component auditor remotely, following the distribution of detailed Group reporting instructions outlining the minimum procedures to be performed over the significant areas of the audit.
- An in-person meeting and site visit was held between BDO UK and the component auditor in the early stages of the execution phase of the audit to ensure appropriate oversight over the planning and execution work performed.
- A detailed review of the component audit file was undertaken, with findings discussed with the component audit team, and component Management where appropriate.
- Regular oversight meetings were held between senior members of the Group and component audit teams to maintain appropriate levels of involvement over all significant risk areas.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We in this case refers to the Group audit team and BDO Netherlands.

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|---|---|
| Acquisition of Tulip Oil Netherlands. Note 2d, 2e and 13. | The Group acquired Tulip Oil Netherlands B.V. (now Kistos NL1 B.V) as part of a business combination, as the underlying transaction met the definition of such a transaction under applicable accounting standards.<br><br>As part of the acquisition of Tulip Oil Netherlands B.V., the Group acquired 100% of the underlying subsidiary, Tulip Oil Netherlands Offshore B.V. (now Kistos NL2 B.V.).<br><br>As part of the acquisition of the above entities, Kistos plc (Kistos) acquired the entire issued and outstanding share capital of Tulip Oil Netherlands B.V., including a €90m bond issued by Kistos NL2 as part of the consideration paid in the transaction.<br><br>The acquisition accounting involved making significant judgements and estimates including assessing the fair value of the consideration paid which included contingent consideration and assigning fair values to the producing and exploration assets acquired. Management used a third party independent expert to assist in determining the fair value of the assets and liabilities acquired, underpinning the enterprise valuation model. For these reasons we considered it be a key audit matter. | Our specific audit testing in this regard included:<br><br>• We reviewed the purchase agreement and associated legal documents, made inquiries of Management and assessed the activities of Tulip Oil Netherlands B.V. to confirm the appropriateness of Management's accounting treatment for the transaction as a business combination.<br>• We assessed the validity of the date at which control passed to the Group based on the contractual terms and the status of conditions precedent for completion.<br>• We assessed the independent expert's competence and capabilities and read their terms of engagement with the Group, to identify any matters that could have affected their independence and objectivity or imposed scope limitations upon them.<br>• We recalculated the fair value of consideration paid with support from our internal valuations team. This included agreeing inputs to supporting documents and challenging Management's assessment of the likelihood of the linked developments impacting contingent consideration being pursued by corroborating to Management's forecasts.<br>• We evaluated Management's determination of the allocation of the consideration to the assets and liabilities acquired in order to assess whether the fair values were supportable by agreeing the Purchase Price Allocation (PPA) to supporting calculations prepared by Management's expert.<br>• We performed audit procedures over the opening balance sheet as at the date of acquisition.<br><br>**Key observations:**<br><br>Based on the procedures performed, we found the judgments and estimates made by Management in respect of the acquisition of Tulip Oil Netherlands to be reasonable. |

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|---|---|
| Accounting for cashflow hedging contract. Note 2e and 21. | In order to ensure cashflows during the drilling campaign, Kistos entered into an over-the-counter commodity forward contract, hedging monthly gas sales over a nine month period  from July 2021.<br>This hedge was designated as an accounting cashflow hedge at inception. We consider hedging a relatively complex accounting treatment outside the normal course of business of Kistos. The correct accounting treatment and valuation is considered a key audit matter. | Our specific audit testing in this regard included:<br>• We inspected underlying hedging election documentation to ensure it was appropriately maintained by the entity.<br>• We reviewed the underlying agreement to ensure that the accounting treatment adopted reflects the nature and terms of the contract and is in accordance with the  applicable accounting standards.<br>• We assessed management's valuation of derivatives and agreed inputs into the calculation to quoted market prices.<br>**Key observations:**<br>Based on the procedures performed we concur with the calculated fair value of the hedge liability and unrealised loss as at 31 December 2021. |
| Application of Dutch Oil & Gas taxation legislation. Note 2e, 12 and 36g. | Income tax calculations are inherently more complex for upstream oil and gas companies. due to the interaction of laws and regulations between 'corporate income tax' and sector specific 'state profit share tax', as governed in the Dutch Mining Act (Mijnbouwwet). The correct tax computations consequently requires extensive and specialised knowledge. For this reason it was considered to be a key audit matter. | Our specific audit testing in this regard included:<br>• We added a BDO NL tax expert to our team (with significant experience of North Sea oil and gas clients) to review tax calculations and computations, including the underlying application of the Dutch Mining Act. The audit team agreed relevant items to tax computations and agreed that the calculations were in line with IAS 12;<br>• We obtained confirmations from management and the Company's tax adviser regarding the completeness of the tax charge and related to deferred tax assets and liabilities.<br>• We reviewed available tax authority audit reports.<br>**Key observations:**<br>Based on the procedures performed, we found Managements applied tax treatment to be reasonable in the context of the Dutch taxation legislation. |
| Carrying value of exploration and evaluation assets and related goodwill. Note 2e, 15 and 36j. | Following the purchase price allocation performed on the acquisition of Tulip Oil Netherlands Offshore B.V, and Tulip Oil Netherlands B.V., the Group reported exploration and evaluation ('E&E') assets of €144.9MM and a goodwill balance of €7.0MM before impairment.<br>In Q4 2021 and Q1 2022 the Group drilled and appraisal well of the Q11b well.  Although gas flowed from the Bunter and Zechstein formations, no gas was encountered in the  Slochteren reservoir, which was the primary target.<br>This result led to a €7.0MM impairment of goodwill arising on the acquisition, and a €112.8MM impairment of the underlying exploration and evaluation assets.<br>To determination the impairment required estimation and judgement of gas volumes, production profiles, gas prices, operating and capital costs. For this reason it was considered to be a key audit matter. | Our specific audit testing in this regard included:<br>• We considered the results of management's drilling activity and determined that it was an impairment trigger as the results from drilling the Slochteren reservoir were know in 2021.<br>• We obtained and agreed for mathematical accuracy the valuation model prepared by Management for the E&E CGU and associated goodwill, as well as the resultant impairment.<br>• We corroborated and challenged the assumptions used in the aforementioned valuation model, including resource levels in the Bunter and Zechstein reservoirs, production profile, capital and operating expenditures and forward gas prices.<br>• We involved BDO's internal valuation experts to validate the discount rates applied in the model.<br>• We performed sensitivities on key inputs to the model where appropriate.<br>**Key observations:**<br>Based on the procedures performed, we found the judgments made by Management to be reasonable in the context of the carrying value and impairment of E&E assets and associated goodwill. |

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|---|---|
| Going concern. Note 1b. | We have highlighted going concern as a key audit matter as a result of the estimates and judgements required by to be made by the Directors in their going concern assessment and the effect on our audit strategy.<br><br>The level of judgement and estimation uncertainty has arisen, because as outlined in note 1b, the Group has announced plans to acquire a 20% interest in the Greater Laggan Area, West of Shetland for initial consideration of US$125 million (subject to customary closing adjustments) in Q2 2022, which Kistos plc will finance from cash flow from operations. | Our specific audit testing in this regard included:<br>• We obtained the Directors' base case cash flow forecast and agreed the February 2022 cash position used in the cash flow forecast to bank statements.<br>• We considered the reasonableness of key underlying assumptions of operations based on 2021 and 2022 year to date actual results, external data, and market commentary where applicable.<br>• We considered the impact of the Group's planned post-year end cash acquisition of an interest in the Greater Laggan Area operation. This included reading key terms of the Sale and purchase agreement. As the effective transaction date is 1 January 2022, but the transaction, which is subject to regulatory and partner consents, is not due to complete until Q2 2022 we also considered the reasonableness of key underlying assumptions of the acquired operations from the effective date based on 2021 and 2022 year to date actual results.<br>• We tested the accuracy and the mechanics of the cash flow forecast model prepared by the Directors and assessed their consistency with approved budgets and Field Development Plans for existing assets and assets to be acquired, as applicable.<br>• We agreed and recalculated headroom on financial covenants linked to the entity's outstanding bonds.<br>• We obtained the Directors' reverse stress testing analysis which was performed to determine the point at which liquidity breaks and considered whether such scenarios, including significant reductions in commodity prices and production were possible. This included assessing the Group's ability to walk away from the acquisition of the Greater Laggan area.<br><br>**Key observations:**<br>Based on the procedures performed, we found Managements applied tax treatment to be reasonable in the context of the Dutch taxation legislation. |

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

### Overview

| | Group financial statements 2021 | Parent Company financial statements 2021 |
|---|---|---|
| Materiality | €4,600,000 | €1,600,000 |
| Basis for determining materiality | 1.29% of total assets | 65% of Group materiality |
| Rationale for the benchmark applied | The materiality has been based on total assets as the Group was not producing for the full year. Furthermore, as the Group continues to expand and explore new gas fields, we consider total assets to be one of the principal considerations for users of the financial statements. | 65% of Group materiality given the assessment of the components' aggregation risk. |
| Performance materiality | €2,900,000 | €1,040,000 |
| Basis for determining performance materiality | 65% of materiality. We considered a number of factors including the expected total value of known and likely misstatements, and our knowledge of the Group's internal controls. | |

### *Component materiality*

We set materiality for the significant component of the Group based on a percentage of 35% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality was €1,600,000. In the audit of the component, we further applied performance materiality levels of 65% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

### *Reporting threshold*

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of €92,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report and audited financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

| | |
|---|---|
| Strategic report and Directors' report | In our opinion, based on the work undertaken in the course of the audit:<br>• the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and<br>• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.<br>In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report. |
| Matters on which we are required to report by exception | We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:<br>• adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or<br>• the Parent Company financial statements are not in agreement with the accounting records and returns; or<br>• certain disclosures of Directors' remuneration specified by law are not made; or<br>• we have not received all the information and explanations we require for our audit. |

### Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### *Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Holding discussions with Management, the Audit Committee, the component auditor and component Management to understand the laws and regulations relevant to the Group and the Parent Company. These include elements of the financial reporting framework, tax legislation, Dutch Mining Act, AIM listing rules, QCA corporate governance code and environmental regulations;
- Holding discussions with Management and the audit committee to consider any known or suspected instances of non-compliance with laws and regulations, or fraud;

We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be management override of controls, revenue recognition, accounting for business combinations, asset retirement obligations (ARO), impairment of goodwill and exploration and evaluation assets, and unauthorised payments.

Our procedures in addressing these risks at a Group, Parent Company and component level included:

- Testing the appropriateness of journal entries made throughout the period which met a specific risk-based criteria;
- Performing a detailed review of the Group's year end adjusting entries and investigating any that appear unusual as to nature or amount;
- Assessing the judgements made by Management when making key accounting estimates and judgements, and challenging Management on the appropriateness of these judgments, specifically around key audit matters as discussed above;
- Reviewing minutes from board meetings of those charged with governance and RNS announcements to identify any instances of non-compliance with laws and regulations;
- Performing a detailed review of the Group's consolidation entries, and investigating any that appear unusual with regards to nature or amount to corroborative evidence; and

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

We considered the engagement team's collective competence and capabilities to identify or recognise non-compliance with the applicable laws and regulations set out above.

We requested the component auditors communicate any instances of non-compliance with laws and regulations that could give rise to a material misstatement of the Group financial statements.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Use of our report

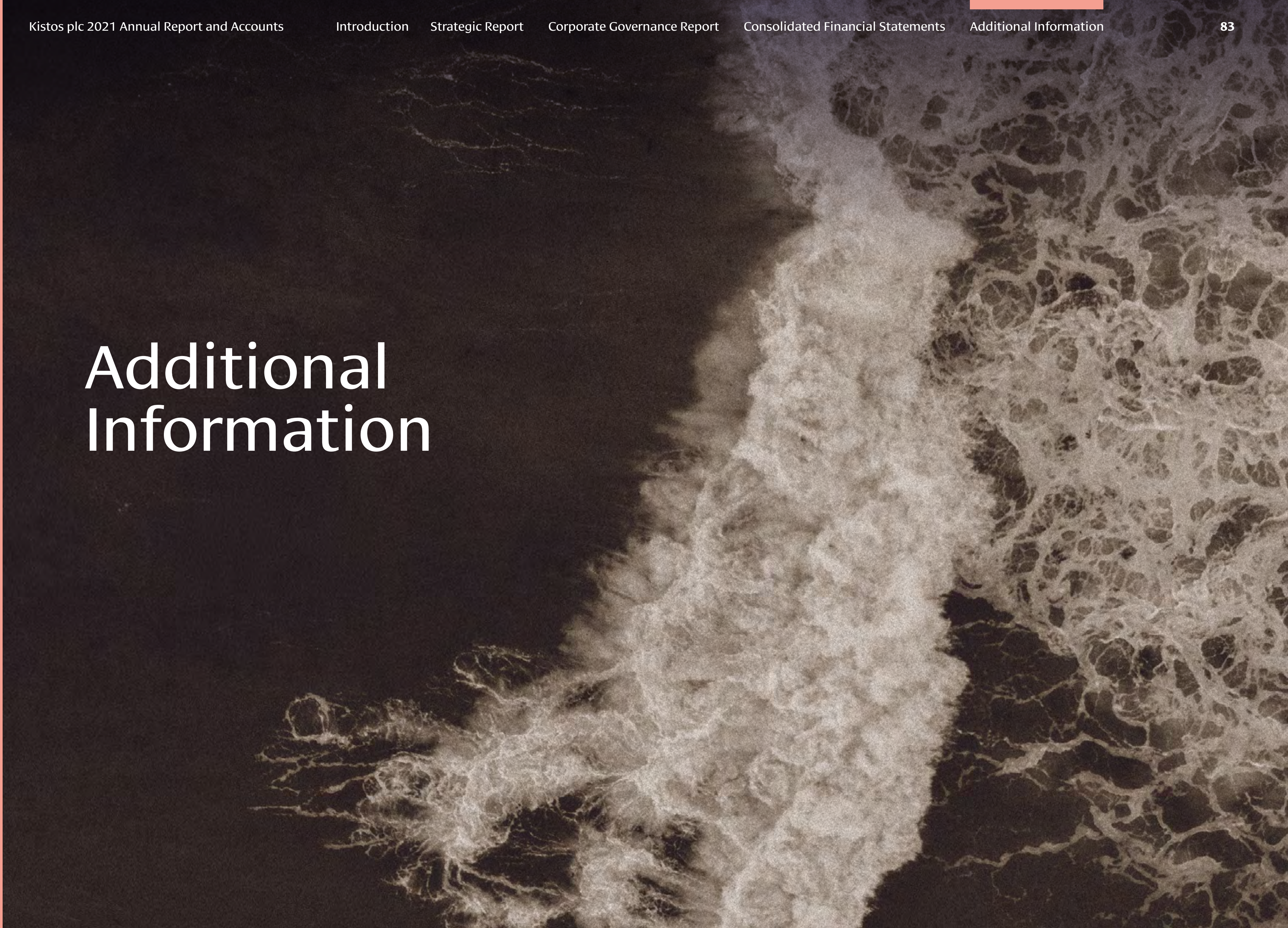
This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

***Peter Acloque (Senior Statutory Auditor)***
For and on behalf of BDO LLP, Statutory Auditor
United Kingdom

6 April 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Additional Information



# General Information

## Directors

Andrew Austin – Executive Chairman
Peter Mann – Chief Executive Officer
Richard Slape – Chief Financial Officer
Richard Benmore – Non-Executive Director
Julie Barlow – Non-Executive Director
Alan Booth – Non-Executive Director

## Company secretary

Orrick, Herrington & Sutcliffe LLP
9th Floor
107 Cheapside
London EC2V 6DN
United Kingdom

## Company number

12949154

## Registered Office

9th Floor
107 Cheapside
London EC2V 6DN
United Kingdom

## Joint Broker

Panmure Gordon UK Ltd
One New Change
London EC4M 9AF
United Kingdom

Joh. Berenberg, Gossler & Co. KG
4th Floor
Vitro 60 Fenchurch Street
London EC3M 4AD
United Kingdom

## Independent auditor

BDO LLP
55 Baker Street
London W1U 7EU
United Kingdom

# Glossary

| | |
|---|---|
| **Adjusted EBITDA** | The Board uses Adjusted EBITDA as a measure to assess the performance of the Group. This measure excludes the effects of significant items of income and expenditure which may have an impact on the quality of earnings such as reversal of provisions and impairments when the impairment is the result of an isolated non-recurring event. |
| **Average realised oil/gas price** | Calculated as revenue divided by sales production for the period. Sales production for the period may be different from production for the period. |
| **Boe** | Barrels of oil equivalent. |
| **Boepd** | Barrels of oil equivalent produced per day. |
| **Company** | Kistos or Kistos plc. |
| **Earnings per share** | Calculated as profit for the financial period divided by weighted average number of shares for the period. |
| **FID** | Final Investment Decision |
| **Group** | Kistos plc and its subsidiaries. |
| **ROU** | Right of use. |
| **Unit opex** | Calculated as production costs divided by production. |

KISTOS
ENERGY IN TRANSITION


Kistos Energy
9th Floor
107 Cheapside
London
EC2V 6DN