KISTOS
ENERGY IN TRANSITION

Energy in Transition

2021 Annual Report and Audited Financial Statements for Kistos NL2 B.V.

The Hague, 6 April 2022

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€'000		2021	2020 (restated)
Gas production	MM Nm^3	288	299
Gas production	000 MWh	3,460	3,592
Revenue	€'000	116,731	33,268
Average realised gas price	€/MWh	33.58	9.26
Unit opex[1]	€/MWh[2]	2.84	1.91
Adjusted EBITDA[2]	€'000	104,310	23,178
Profit/(loss) for the year[3]	€'000	34,359	3,113
Net cash from operations	€'000	63,587	20,811
Capital expenditures (cash)	€'000	(20,778)	(764)
Total cash	**€'000**	**44,422**	**17,691**

1. Calculated as production costs divided by production.
2. 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.
3. The comparative information is restated; see also Note 2 f) of the Audited Financial statements with notes.

Summary of Financial Results and Production

Highlights

Strategic & Operational

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. Development studies are underway.
- Appraisal of the Q11-B discovery successfully flowed at a combined rate of over 0.27MM Nm^3 per day from the Bunter and Zechstein reservoirs. Development studies are underway but failed to encounter gas in the primary Slochteren target.
- Sidetrack of the A-04 well at Q10-A increased production by >0.8MM Nm^3 per day.

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

1.31MM Nm^3 per day

Average gross production of 1.31MM Nm^3 per day (0.79MM Nm^3 per day net to Kistos NL2) in the year to 31 December 2021 versus 1.37MM Nm^3 per day in 2020 (0.82MM Nm^3 per day net to Kistos NL2).

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.

Financial

€150MM issued of Nordic Bonds

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

€44.4MM cash balance

Cash balances on 31 December 2021 were €44.4MM (2020: €17.7MM).

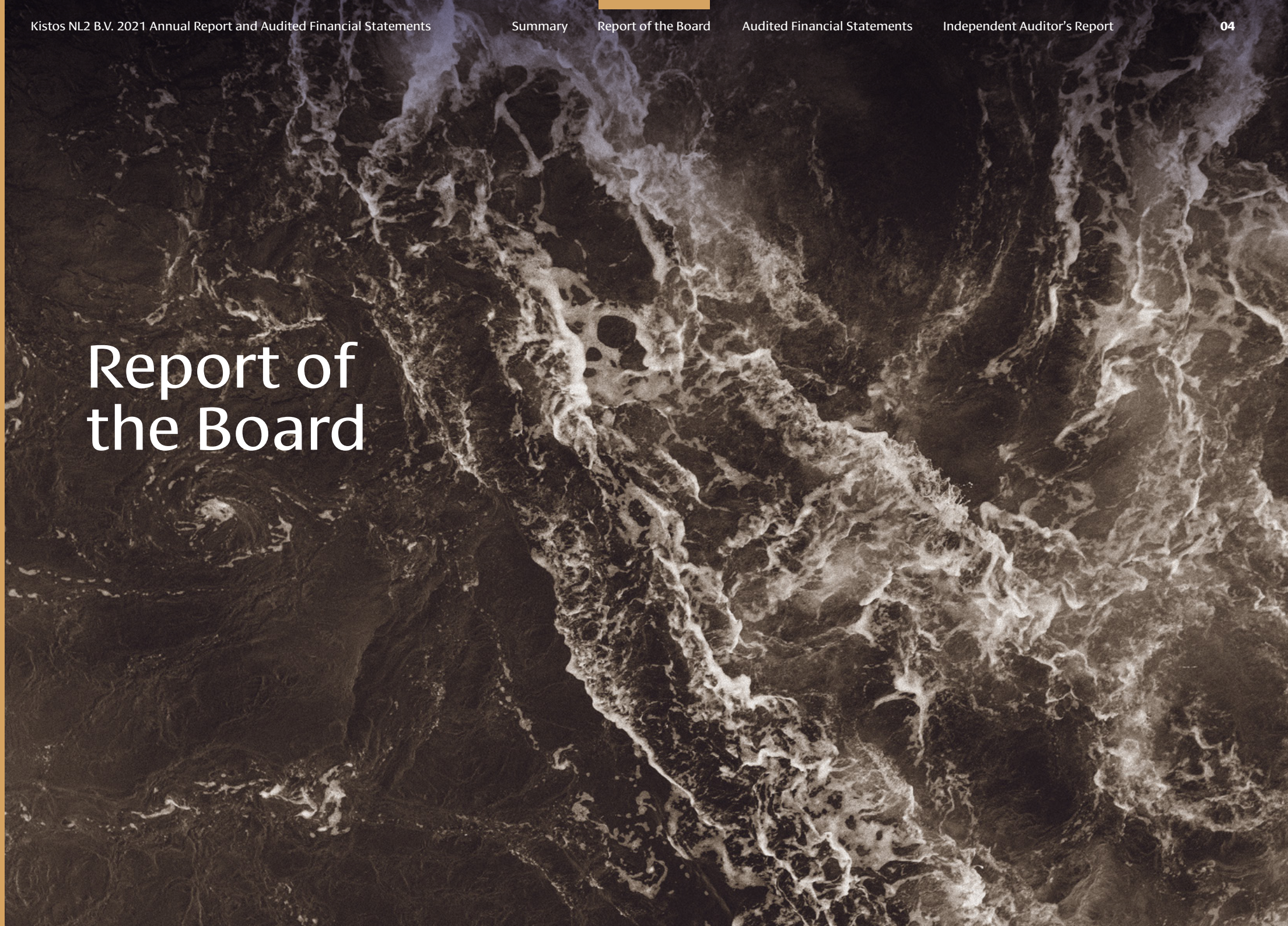
350% up

EBITDA of €104.3MM in the 12 months to 31 December 2021, up 350% versus 2020 due primarily to a 263% increase in average gas prices from €9.26/MWh to €33.58/MWh.

€25.7MM capital expenditure

Capital expenditure (accruals basis) in 2021 was €25.7MM, 87% of which occurred in the second half of the year when the drilling campaign was underway.

Report of the Board



Business Review

Company profile

Kistos NL2 B.V. ("Kistos NL2" or the "Company") is a 100%-owned subsidiary of Kistos NL1 B.V. ("Kistos NL1"), which is a 100%-owned subsidiary of Kistos plc. The address of its registered office and principal place of business is Alexanderstraat 18, 2514 JM Den Haag, The Netherlands. Kistos plc acquired Kistos NL1 (formerly Tulip Oil Netherlands B.V.) on 20 May 2021. Together with Kistos NL2 (formerly Tulip Oil Netherlands Offshore B.V.), it forms the Kistos Group, hereinafter referred to as "the Group".

The Company is wholly and directly controlled by Kistos NL1 and by its ultimate parent Kistos plc. The main focus of the Company is upstream development and production with a focus on the exploitation opportunities in undiscovered and undeveloped offshore oil and gas fields in The Netherlands. As at 31 December 2021 Kistos NL2 holds the exploration licences for Q8, Q10-B and Q11 and holds the production licences for Q7 and Q10-A. Together with Energie Beheer Netherlands ("EBN") as partner, Kistos NL2 acts as the operator in the joint operation agreements of the abovementioned offshore licences.

Overview

The Board hereby submits to the shareholders the financial statements for the financial year 2021, as prepared by management and approved by the Board on 6 April 2022. BDO Audit & Assurance B.V. audited the financial statements. Its report can be found on page 43. The Board recommends that shareholders, in accordance with the Articles of Association, adopt these financial statements and, as proposed by the Board, transfer the profit for the 2021 financial year of €34.4MM to retained earnings.

Business review

In the six months to the end of June 2021, gross production from Q10-A averaged 1.43MM Nm^3 per day. However, two months after the completion of the acquisition of Kistos NL1 and Kistos NL2 by Kistos plc, Kistos NL2 announced the commencement of a six-month drilling campaign, which resulted in Q10-A exiting the year with output significantly higher at 1.8MM Nm^3 per day. In addition, an appraisal of the Orion oil discovery tested at a rate of 3,200 b/d. The Q11-B appraisal targeted three reservoirs: Slochteren, Bunter and Zechstein. Slochteren target was completed prior to year end and was water bearing. Bunter and Zechstein formations flowed gas. The well has now been suspended pending further development studies.

As detailed in the independent Competent Persons Report (CPR) published in conjunction with the transaction related to the acquisition of Kistos NL1 and Kistos NL2, 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. This figure has the potential to increase as we progress to Final Investment Decision (FID) with the Orion and Q11-B projects, enabling the conversion of 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 things such as wind turbines and solar panels into its design. We will take a similar approach to any future development projects.

Central to our operations is our health, safety and environmental (HSE) performance. We are 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.

Financial position

Reported EBITDA for 2021 was €104.3MM. This was weighted towards the second half of the year, when gas prices were significantly higher. Hence, we ended the year with cash balances of €44.4MM, which was achieved after capital expenditure outflow of €20.8MM. With high gas prices carrying over into 2022 and production from the Q10-A gas field significantly higher than when Kistos plc acquired the Company, the current year has started strongly.

Outlook

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 meticulous approach to the Concept Assess and Concept Select phases of the Q-10 Orion oil field development project.

Our thanks and appreciation to all our staff, contractors and partners for their contributions and cooperation during an exciting and successful 2021.

Financial Review

Audited results for the year ended 31 December 2021

		31 December 2021	31 December 2020 (restated)
Production	MM Nm³	288	299
Production	'000 MWh	3,460	3,592
Revenue[1]	€'000	116,731	33,268
Unit Opex[2]	€/MWh	2.84	1.91
Adjusted EBITDA[3]	€'000	104,310	23,178
Profit before tax[4]	€'000	67,861	2,659
Net cash from operations	€'000	63,587	20,811
Average realised gas price[1]	€/MWh	33.58	9.26
Total cash	**€'000**	**44,422**	**17,691**

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

1. Includes the impact of effective realised gains on the cashflow hedge
2. Non-IFRS measures. Refer to the alternative performance measures definition within the glossary to the half-year financial report
3. Adjusted EBITDA is calculated on a business performance basis. Refer to the alternative performance measures definition within the glossary to the Annual Report
4. The comparative information is restated; see also Note 2 f) of the Audited Financial statements with notes

Production and revenue

Actual production on a working interest basis totalled 288MM Nm³ (5.3 kboe/d) in 2021.

The Company's average realised gas price during the year was €33.58/MWh and total revenue from gas sales was €116.2MM.

Costs

Production costs for the year were €9.8MM or €2.84 per MWh (2020: €6.8MM or €1.91 per MWh). As Q10-A did not require compression or annual structural surveys in the very early stages of its life, its underlying operating costs in 2020 were materially lower than in 2021.

During 2021, pre-FID development expenses of €4.5MM on potential alternative evacuation routes for the Q10-A platform have been incurred. As FID was not taken on the project these costs have been expensed in the profit and loss account. Further studies are being undertaken into 2022 with other partners.

Adjusted EBITDA

€MM	31 December 2021	31 December 2020
Adjusted EBITDA	**104,310**	**23,178**
Depreciation and amortisation	(14,165)	(13,999)
Impairment	(8,354)	-
Pre-FID expenses	(4,535)	-
Operating profit	**77,256**	**9,179**

The Company reported adjusted EBITDA of €104.3MM for the year 2021. The impairment of €8.4MM relates to partial abandonment of the Q10-A04 well (€6.9MM) and the restimulation of the Q10-A06 well (€1.4MM).

Capital expenditure

Consistent with our growth plans and to ensure we maximise the value of our asset portfolio, capital expenditure in 2021 was €25.7MM. The bulk of this – €25.4MM – 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 originally expected.

Profit/loss before tax

Operating profit for 2021 amounted to €77.3MM compared to €9.2MM in the prior year. Profit before tax of €67.9MM was after interest charges of €9.4MM relating to the €150MM of Nordic Bonds issued by Kistos NL2 including a loss on redemption of €0.8MM relating to an €87MM Nordic Bond refinancing.

Figures in brackets apply to the corresponding period in the previous year (2020).

Financial Review

Financial position

€'000	31 December 2021	31 December 2020
Cash and cash equivalents at beginning	**17,691**	**6.071**
Net cash generated from operating activities	63,587	20,811
Net cash used in investing activities	(20,778)	(764)
Net cash used in financing activities	(16,078)	(8,427)
Net increase/(decrease) in cash and cash equivalents	26,731	11,620
Cash and cash equivalents at end	**44,422**	**17,691**

During the first half of 2021, Kistos hedged 100,000 MWh per month at a price of €25/MWh for the nine-month period from July 2021 to March 2022. Based on the prevailing gas price of €64.85/MWh, this resulted in the creation of a €5.9MM hedge reserve at year end.

Research and development

The Company does not conduct material research and development.

Information supply and computerisation

The Company's IT applications and systems are centralised in a single location in The Netherlands. The main servers are located in The Netherlands with back-up servers in the Cloud on European servers. The majority of the systems are running on standard desktop applications with some specialised software applications being used for subsurface modelling. A limited number of data exchanges/interfaces exist between the systems and applications.

Going concern

With steady gas production in 2022, cash flow from operations will be sufficient to meet ongoing liabilities and also support further development and appraisal activities. Production has been stable as we have entered 2022 and with lower forecast capital expenditure and improvements in the COVID-19 pandemic we envisage less disruptions to our operations.

Management statement

The financial statements give a true and fair view of the assets and liabilities, the financial position and profit or loss. The management report provides a true and fair view of the significant risks and uncertainties to which the Company is exposed.

Governance and Risk Management

A culture of ethical behaviour aligned to our business integrity values and a robust management system with short lines of command are central to how we run the business. Through clear corporate governance policies, supported by robust risk, assurance and performance management processes, we manage the opportunities and risks in our operations and respond to the concerns of our shareholders and stakeholders.

Board and Committees

Matters related to Kistos NL2 are covered by the Kistos plc Board (hereinafter referred as "Board"), which addresses all matters related to the Group. The long-term success of the Company is the collective responsibility of the Kistos plc Board and the directors of Kistos NL2. The Board adopts an equal opportunities commitment.

The Directors of Kistos NL2 are:

- Ruud Schrama, Chief Financial Officer & Executive Director – *resigned 20 May 2021*;
- Andrew Austin, Director – *appointed 20 May 2021*; and
- Bart de Sonnaville, Director – *appointed 20 May 2021.*

The role of the Board

The Board is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term value. It meets these aims through setting the Group's strategy and ensuring that the necessary resources are available to achieve the agreed strategic goals. The Board also sets the Company's key policies and reviews management and financial performance. The Board operates within a framework of controls. Clear procedures, lines of responsibility and delegated authorities allow risk to be assessed and managed effectively. These are underpinned by the Board's work to set the Group's core values and standards of business conduct and ensure that these, together with the Group's obligations to its stakeholders, are widely understood across all its activities.

Board meetings and visits

The Board deals with its core activities in monthly planned meetings throughout the year. Matters which require decisions outside the scheduled meetings are dealt with through additional dedicated meetings and conference calls as required. Meetings are taking place physically, or virtually in observance of COVID-19 restrictions.

Audit Committee meetings

An Audit Committee has been established at the Kistos plc level to oversee the financial reporting and controls of the Group. This Audit Committee and its members also act as the Audit Committee of Kistos NL2. The Kistos plc Audit Committee oversees the financial reporting process in order to ensure that the information provided to the shareholders is fair, balanced and understandable and allows accurate assessment of the Company's position, performance and systems of internal control.

The Kistos plc Audit Committee meets at least twice a year to oversee the half-year and year-end financial reporting of the Company. Meetings outside of this are organised as required.

The Kistos plc and Kistos NL2 Audit Committee members are:

- Julie Barlow, Chair – *appointed 8 December 2021*; and
- Alan Booth – *appointed 8 December 2021*.

Internal controls

The Directors acknowledge their responsibility for the Company's systems of internal control, which are designed to safeguard the assets of the Company and to ensure the reliability of financial information for both internal use and external publication.

Overall control is ensured by a regular reporting process covering technical progress of projects and production operations, environmental, social and governance (ESG) matters and the state of the Company's financial affairs. The Board has put in place procedures for identifying, evaluating and managing principal risks that face the Company. Principal risks are regularly reported to and reviewed by the Board. The Company recognises that any system of internal control can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. However, the Board's objective is to ensure that the Company has appropriate systems in place for the identification and management of risks.

Governance and Risk Management

Business integrity policy

The Company operates under a Business Integrity framework that applies to all staff and employees. The framework has been communicated to all staff and employees and is reinforced regularly. Each quarter the Group obtains confirmation of compliance with key aspects of this policy for all companies in the Group.

The framework encompasses the following elements:

1. Comply with Relevant Legislation and will not pay or knowingly cause to be paid any bribes or facilitation payments, and will report to the Chief Financial Officer any request from any person for a bribe or facilitation payment;
2. Comply with the occupational health, safety, and environmental (HSE) laws, rules, and regulations of the relevant territory in which the Group is operating or, in the absence of such laws, rules, and regulations, adhere to local standards or industry standards of good oilfield practice in relation to any assets operated by the Group;
3. Report any HSE incidents to the Group Line Management, which will seek to investigate and rectify as quickly and effectively as practically possible;
4. Comply with the Manual of Authorities and where in doubt check with the Finance Director;
5. Comply with the EU Anti-Trust Regulations and not make any agreements with competitors regarding prices, dividing markets or specific customers;
6. Avoid conflicts of interest or report them if they have the potential to occur;
7. Ensure that records are kept accurately and retained in accordance with the Group's IT/data management policy;
8. Follow the procedures on gifts and entertainment, and ensure all necessary approvals are obtained;
9. Not use Company's resources, time or name in political activities or to make any political contributions;
10. Behave in a manner that does not damage the reputation of the Company and to refrain from any form of discrimination or harassment; and
11. Report any breach or suspected breach of this Policy as soon as practicable to a member of the Company's line management.

Health, safety and environment

The Group has a policy to conduct operations in a manner that protects the health, safety and well-being of its staff, employees, contractors and the public. Significant efforts are undertaken to avoid impact to the environment and integrity of assets and damage.

The HSE Policy of the Group reflects the integrated way our staff work with contractors and service providers. All personnel working directly or indirectly for the Group must manage HSE in line with the policy. The Group is committed to:

- Pursue the goal of no harm to people, assets or the environment;
- Promote sustainability related to the avoidance of the unnecessary depletion of natural resources and to use material and energy efficiently;
- Respect our neighbours and to not have a negative social impact on the societies in which we operate; and
- Support and promote a culture in the Group in which we all share this commitment.

Risks and risk management

Effective management of risk forms an integral part of how the Company operates as a business and is embedded in day-to-day operations.

Responsibility for identifying potential strategic, operational, reporting and compliance risks, and for implementing fit-for-purpose responses, lies primarily with executive management. Company-wide risk management priorities are defined by management and endorsed by the Board, who bear ultimate responsibility for managing the main risks faced by the Company and for reviewing the adequacy of the Company's internal control system.

Management is inherently risk averse and has put in place processes, procedures and controls for monitoring its risks and taking relevant actions to manage the risks going forward. The principal risks of Kistos plc, which also applies to Kistos NL2, are set out on the next page.

Risk Management

Understanding the risks associated with our operations.

Direction of change

Increase in risk ↑
No change →
Decrease in risk ↓

	Risk	Executive Ownership – plc	Mitigation	Change
Strategic	**Exposure to political risk** 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' blocks, which can ultimately impact the Group's ability to deliver its strategy.	**Peter Mann** CEO	Directly and through NOGEPA and other industry associations, the Group engages with governments 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** Growth strategy fails to meet shareholder expectations.	**Andrew Austin** 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. Provide clear, transparent and consistent communication to all stakeholders. Ensure delivery against plan. Regular meetings with shareholders and potential shareholders.	→
Strategic	**Climate change** 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** 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** 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** CEO	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** Planning, environmental, licensing and other permitting risks associated in particular with operations, drilling and construction.	**Peter Mann** 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. Potential development routes on existing production and new development opportunities are reviewed to maximise shareholder returns.	→
Operational	**Gas production** Gas is not produced in the anticipated quantities from any or all of the Group's assets, unplanned shutdowns on third-party evacuation routes or that gas cannot be delivered economically.	**Peter Mann** 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. To the extent possible discussions are held with third parties to manage shutdowns both planned and unplanned.	→

Governance and Risk Management

Direction of change

Increase in risk ↑
No change →
Decrease in risk ↓

	Risk	Executive Ownership – plc	Mitigation	Change
Operational	**Project delivery on time and on cost** Risk of delays in project delivery and higher costs being incurred.	**Peter Mann** 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** Loss of key staff.	**Peter Mann** 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** 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** 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 where necessary working from home. Strict COVID-19 testing procedures have also been adopted on the drilling rig and Q10-A platform.	↓
Financial	**Gas price risk** Exposure to market price risk through variations in the gas price.	**Richard Slape** CFO	The positive volatility in the gas price during 2021 has helped underlying revenues. However, the Group has a policy of hedging its cash flows where needed. 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 in the nine months up to 31 March 2022. The Board continuously reviews the gas markets to determine whether future hedges are required.	→
Financial	**Liquidity risk** Exposure, through its operations and developments, to its liquidity risk.	**Richard Slape** 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** 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** CFO	The Group mitigates this risk through in-house decommissioning experience, coupled with a continued focus on delivering asset value to defer abandonment liabilities.	→

The Hague, 6 April 2022

Andrew Austin
Director

Bart de Sonnaville
Director

Audited Financial Statements With Notes

Profit and Loss Account and Balance Sheet

Profit and loss account for the year ended 31 December 2021

€'000	Note	**Year ended 31 December 2021**	Year ended 31 December 2020 (restated)
Revenue	3	**116,731**	33,268
Exploration expenses		(297)	(169)
Production costs	4	(9,814)	(6,852)
Development expenses	5	(4,535)	-
Depreciation and amortisation	12	(14,165)	(13,999)
Impairments	12	(8,354)	-
Other operating expenses	6	(2,310)	(3,069)
Total operating expenses		**(39,475)**	(24,089)
Operating profit		**77,256**	9,179
Interest income	8	3,452	3
Interest expenses	8	(10,337)	(5,544)
Finance income and expenses	8	(2,510)	(979)
Net finance costs		**(9,395)**	(6,520)
Profit before taxes		**67,861**	2,659
Tax (charge)/credit	9	(33,502)	454
Profit for the year attributable to owners of the Company		**34,359**	3,113

Statement of comprehensive income for the year ended 31 December 2021

€'000		**Year ended 31 December 2021**	Year ended 31 December 2020 (restated)
Profit for the year attributable to owners of the Company		**34,359**	3,113
Items that may be reclassified to profit or loss			
Costs of cash flow hedge deferred and recognised in OCI	17	(38,624)	-
Cash flow hedge – reclassified to profit or loss	17	26,843	-
Tax impact on hedge reserve in OCI	17	5,891	-
Total comprehensive income for the year		**28,469**	3,113

The notes on pages 15 to 40 are an integral part of these financial statements.

Balance sheet as at 31 December 2021

€'000	Note	**31 December 2021**	31 December 2020 (restated)	31 December 2019 (restated)
Non-current assets				
Exploration and evaluation assets	12	17,443	1,950	1,490
Property, plant and equipment	12	89,250	101,607	131,956
Deferred tax assets	9	13,496	25,725	22,907
Loan receivables	10,24	60,000	-	-
		180,189	129,282	156,353
Current assets				
Inventories		902	1,373	365
Unbilled receivables	24	40,299	6,245	8,092
Other receivables	13	11,711	1,847	1,042
Cash and cash equivalents	14	44,422	17,691	6,071
		97,334	27,156	15,570
TOTAL ASSETS		**277,523**	156,438	171,923
Equity				
Share capital	15	-	-	-
Share premium	16	20,517	20,517	20,517
Hedge reserve	17	(5,890)	-	-
Retained earnings		48,665	14,306	11,193
Total equity		**63,292**	34,823	31,710
Non-current liabilities				
Abandonment provision	19	15,904	13,214	31,457
Bond payable	20	145,074	85,428	84,566
Interest-bearing loans from affiliates	23	1,804	3,700	4,200
Other non-current liabilities		31	89	121
		162,813	102,431	120,344
Current liabilities				
Trade payables and accrued expenses	21	22,130	7,773	9,792
Liabilities against affiliates – tax settlement		14,980	-	-
Other liabilities	22	14,308	11,411	10,077
		51,418	19,184	19,869
Total liabilities		**214,231**	121,615	140,213
TOTAL EQUITY AND LIABILITIES		**277,523**	156,438	171,923

The notes on pages 15 to 40 are an integral part of these financial statements and were approved by the directors on 6 April 2022.

Andrew Austin
Director

Bart de Sonnaville
Director

Statement of Changes in Equity and Cash Flow

Statement of changes in equity for the year ended 31 December 2021

€'000	Share capital (Note 15)	Share premium (Note 16)	Retained earnings	Hedge reserve (Note 17)	Total equity
Equity as of 31.12.2019 *as previously reported*	**-**	**20,517**	**13,443**	**-**	**33,960**
Prior year adjustment (see note 2f)	-	-	(2,250)	-	(2,250)
Restated equity as of 31.12.2019	**-**	**20,517**	**11,193**	**-**	**31,710**
Profit/(loss) for the year	-	-	3,113	-	3,113
Restated equity as of 31.12.2020	**-**	**20,517**	**14,306**	**-**	**34,823**
Profit/(loss) for the year	-	-	34,359	-	34,359
Movement in the year	-	-	-	(5,890)	(5,890)
Equity as of 31.12.2021	**-**	**20,517**	**48,665**	**(5,890)**	**63,292**

The notes on pages 15 to 40 are an integral part of these financial statements.

Statement of cash flow for the year ended 31 December 2021

€'000	Note	Year ended 31 December 2021	Year ended 31 December 2020 (restated)
Cash flow from operating activities			
Profit/(loss) for the year		**34,359**	3,113
Tax charge/(credit)	9	33,502	(454)
Net finance costs	8	9,395	6,520
Depreciation and amortisation	12	14,165	13,999
Impairment losses	12	8,354	-
Other		-	(1)
Taxes paid		(1,158)	(2,847)
(Increase)/decrease in trade and other receivables		(38,234)	1,526
Increase/(decrease) in trade, other payables and provisions		2,733	(37)
(Increase)/decrease in inventories		471	(1,008)
Net cash flow from operating activities		**63,587**	**20,811**
Cash flow from investment activities			
Payments to acquire tangible fixed assets	28	(20,778)	(764)
Net cash flow from investment activities		**(20,778)**	**(764)**
Cash flow from financing activities			
Repayment of loan to parent Company	23, 29	(1,896)	(500)
Repayment of long-term payables		(98)	(31)
Interest paid		(11,201)	(7,524)
Intercompany interest paid		(215)	(328)
Other finance charges	8	(108)	(44)
Bond refinancing	20	3,000	-
Bond issue costs	20	(2,933)	-
Bond redemption costs		(2,627)	-
Proceeds from bond issue	20	60,000	-
Loan to Kistos plc	10	(60,000)	-
Net cash flow from financing activities		**(16,078)**	**(8,427)**
Increase/(decrease) in cash and cash equivalents		**26,731**	**11,620**
Cash and cash equivalents at 1 January		17,691	6,071
Cash and cash equivalents at 31 December	14	**44,422**	**17,691**

The notes on pages 15 to 40 are an integral part of these financial statements.

Notes to the Financial Statements

Note 1: Accounting policies

a) General information

Kistos NL2 B.V. (the Company) is a private limited liability Company incorporated in The Netherlands. The address of its registered office and principal place of business is Alexanderstraat 18, 2514 JM Den Haag, The Netherlands. The Company was founded in May 2015 and is registered in the Trade Register at the Chamber of Commerce under number 63654954. On 20 May 2021 Kistos NL1 B.V. (formerly Tulip Oil Netherlands B.V.) was acquired by Kistos plc. Kistos NL2 (formerly Tulip Oil Netherlands Offshore B.V.) is a wholly owned subsidiary of Kistos NL1 B.V.

The main focus of the Company is the upstream development and production company with a focus on the exploitation opportunities in undiscovered and undeveloped offshore oil and gas fields in The Netherlands. Kistos NL2 holds the exploration licences for Q8, Q10-B and Q11 and holds the production licences for Q7 and Q10-A. Together with Energie Beheer Netherlands ("EBN") as partner, Kistos NL2 acts as the operator in the joint operation agreements of the abovementioned offshore licences.

Financial reporting period

These financial statements cover the year 2021, which ended at the balance sheet date of 31 December 2021.

b) Going concern

The financial statements of the Company have been prepared on the basis of the going concern assumption. See also note 2d for further elaboration on the presumption of going concern.

Note 2: Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Section 2:362(9) of The Netherlands Civil Code.

Changes to significant accounting policies are set out in note 2e.

The Company'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 24); and
- non-derivative financial instruments are measured at fair value through profit and loss account (FVTPL) (see note 24).

c) Functional and presentation currency

These financial statements are presented in euro, which is the Company's functional currency. All amounts have been rounded to the nearest €1 thousand, unless otherwise stated.

d) Use of judgements and estimates

In preparing these financial statements, management has made judgements and estimates that affect the application of the Company'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 Company's financial statements are set out below.

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.

- Carrying value of property, plant and equipment (note 12):

Management performs impairment reviews on the Company's 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.

Notes to the Financial Statements

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 Company 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 reserve (oil and gas) estimates used in the calculation of depreciation and impairment of property, plant and equipment (note 12):

P1 proven and P2 probable reserves are estimates of the amount of oil and gas that can be economically extracted from the Company's oil and gas assets. The Company 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.

P1 proven and P2 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.

- Abandonment provision (note 19):

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 9):

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 financial statements and the subsequent tax filings are recognised prospectively as a prior year tax charge.

- Measurement of fair values (note 24):

A number of the Company'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 Company 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.

Notes to the Financial Statements

- Presumption of going concern:

The Company closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices and different production rates from the Company's producing assets. In the currently low commodity price environment, the Company has taken appropriate action to reduce its cost base and increase liquidity. The Company's forecasts show that it 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.

Operational restrictions placed on Kistos NL2 and its supply chain because of the spread of COVID-19 has not led to any significant 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 both in the office and at the drilling rig have worked well.

e) Changes in accounting policies

The Company has initially adopted Interest Rate Benchmark Reform – Phase 2 (*Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*) from 1 January 2021.

The Company applied the Phase 2 amendments retrospectively. In accordance with the exceptions permitted in the Phase 2 amendments, the Company has elected not to restate comparatives for the prior periods to reflect the application of these amendments. Since the Company had no transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 31 December 2020, there is no impact on opening equity balances as a result of retrospective application.

Specific policies applicable from 1 January 2021 for interest rate benchmark reform

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, then the Company updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – ie the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Company first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Company applied the policies on accounting for modifications to the additional changes.

The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform.

Finally, the Phase 2 amendments provide a series of temporary exceptions from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument that permits the hedging relationship to be continued without interruption. The Company applied the following reliefs as and when uncertainty arising from interest rate benchmark reform was no longer present with respect to the timing and amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument:

- the Company amended the designation of a hedging relationship to reflect changes that were required by the reform without discontinuing the hedging relationship; and
- when a hedged item in a cash flow hedge was amended to reflect the changes that were required by the reform, the amount accumulated in the cash flow hedge reserve was deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

The details of the accounting policies are disclosed in note 31r. See also note 22 for related disclosures about risks, financial assets and hedge accounting.

Notes to the Financial Statements

f) Prior year restatements

In the 2020 financial statements an additional consideration of €6.4MM was recorded for the intercompany Q10-A licence transfer between Kistos NL1 and Kistos NL2 originally effected in 2015. This transaction was accounted for within property, plant and equipment and intercompany payables in 2020 as the triggering event for fair value accounting was before 2020, this resulted in a restatement of depreciation of property, plant and equipment.

Kistos NL2 has adopted an accounting policy to capitalise interest over its drilling programme. In 2018, when work commenced on the construction of the Q10-A programme and execution of its drilling programme, Kistos NL2 used a methodology to stop capitalising interest on completion of the drilling programme. In 2021, this methodology has been restated to recognise that some assets have commenced production in 2019 and hence capitalisation of interest should cease. This has resulted in a movement of capitalised interest from property, plant and equipment to the profit and loss account.

The total impact of the restatements in 2019 is €2,250 thousand on retained earnings. This restatement comprises of €868 thousand related to the Q10-A transfer and €1,382 thousand related to capitalised interest. An additional reclassification from intangibles assets to tangible fixed assets has been processed which relates to the acquisition costs of the Q7 and Q10 asset that have been transferred from asset under construction into production. This reclassification has no impact on any of the profit and loss accounts or retained earnings. The following tables summarise the impacts of the restatements on Kistos NL2's financial statements.

Profit and loss account

	Impact of restatement		
For the year ended 31 December 2020 €'000	**As previously reported**	**Adjustments**	**As restated**
Depreciation and amortisation	(14,076)	77	(13,999)
Interest expenses	(1,636)	(3,537)	(5,173)
Interest on loans from affiliates	(316)	(11)	(327)
Tax (charge)/credit	(965)	1,419	454

Statement of financial position

	Impact of restatement		
31 December 2020 €'000	**As previously reported**	**Adjustments**	**As restated**
Intangible fixed assets	1,585	(1,585)	-
Property, plant and equipment	109,086	(5,529)	103,557
Deferred tax assets	22,913	2,812	25,725
Retained earnings	18,608	(4,302)	14,306

	Impact of restatement		
31 December 2019 €'000	**As previously reported**	**Adjustments**	**As restated**
Intangible fixed assets	1,658	(1,658)	-
Property, plant and equipment	129,004	4,442	133,446
Deferred tax assets	21,515	1,392	22,907
Retained earnings	13,443	(2,250)	11,193
Liabilities against affiliates (included under Other liabilities)	376	6,426	6,802

g) 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 Company uses periodically fixed average exchange rates that effectively approximate the exchange rates on transaction dates.

Notes to the Financial Statements

Note 3: Revenue

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

€'000	**Year ended 31 December 2021**	Year ended 31 December 2020
Recognised income liquids	559	-
Recognised income gas	116,172	33,268
Total petroleum revenues	**116,731**	**33,268**
Analysis of produced volumes *(thousand barrels of oil equivalent)*		
Liquids	13	21
Gas	1,929	2,003
Total produced volumes	**1,942**	**2,024**
Gas *(MM Nm³)*	*288*	*299*
Gas *('000 MWh)*	*3,460*	*3,592*

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.

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	**Year ended 31 December 2021**	Year ended 31 December 2020
Salaries and contractors	1,497	(211)
Travel and travel-related costs	46	38
IT and communication	135	66
Professional services	756	241
Cost recharges	1,928	2,647
Other (including recovery of cost and capitalisation of costs)	(2,052)	288
Total other operating expenses	**2,310**	**3,069**

The audit fee and other non-audit related fees have been disclosed in the financial statements of the parent company (Kistos NL1).

Salaries and contractors' expenses in 2020 include the reversal of a bonus previously payable to a former director.

Other includes joint operator recovery which is some €465 thousand higher in 2021 as a result of higher expenditures. In addition, 2021 includes the capitalisations of €830 thousand of costs related to the drilling programme executed in 2020. Other includes joint operator recovery, capitalisations of costs related to the residual 2019 drilling programme and a one-off cost redistribution charge amounting to €1,341 thousand.

Note 7: Employee benefit expenses

€'000	**Year ended 31 December 2021**	Year ended 31 December 2020
Wages and salaries	850	-
Social security costs	59	-
Total employee benefit expenses	**909**	**-**

Following acquisition of Kistos NL1 and Kistos NL2 from Tulip Oil Holding B.V., the employees in Tulip Oil Holding B.V. have been transferred to Kistos NL2 during the year. At the end of 2021 there were 12 employees of the Company, all of them working in The Netherlands (2020: Nil). There are two directors in Kistos NL2. Costs related to these directors are either recharged from Kistos plc or via a contractual service invoice. The total amount charged for the provided services amounts to €210 thousand (2020: Nil).

Notes to the Financial Statements

During the 2021 financial year, the average number of staff employed by the Company, converted into full-time equivalents, amounted to 5.6 people (2020: Nil). This staffing level (average number of staff) can be divided into the following staff categories:

€'000	**Year ended 31 December 2021**	Year ended 31 December 2020
Technical	3	-
Support	3	-
Total staff	**6**	**-**

During the year, the Company also retained several key contractors for delivering the objectives of the Company. As of 1 January 2022, these individuals have had their contract converted to a full-time employment contract.

Note 8: Net finance costs

€'000	**Year ended 31 December 2021**	Year ended 31 December 2020 (restated)
Interest income	-	(3)
Interest income from loan from ultimate parent	(3,452)	-
Total financial income	**(3,452)**	**(3)**
Other interest expenses	108	44
Interest expenses	10,035	5,173
Interest on loans from affiliates	194	327
Total interest expenses	**10,337**	**5,544**
Unwinding of bond discount	135	348
Accretion expenses	70	117
Amortised bond costs	899	514
Hedge ineffectiveness *(see note 24)*	625	-
Loss on bond redemption *(see note 20)*	781	-
Total other financial expenses	**2,510**	**979**
Net finance costs	**9,395**	**6,520**

During 2021 an amount of €2.1MM (2020: €4.8MM) of interest expenses have been capitalised under property, plant and equipment. The Company has ceased capitalising interest from October 2021.

Note 9: Tax (charge)/credit

€'000	**Year ended 31 December 2021**	Year ended 31 December 2020 (restated)
Current tax expense		
Current year	(15,382)	(2,364)
Deferred tax expense		
Origination and reversal of temporary differences	(18,120)	2,818
Tax (charge)/credit	**(33,502)**	**454**

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

€'000	**Year ended 31 December 2021**	Year ended 31 December 2020 (restated)
Profit/(loss) before taxes	**67,861**	**3,113**
Income tax (expense)/benefit calculated at 50% (2020: 50%)	**(33,931)**	**(1,557)**
Expense uplift for SPS	1,192	1,194
Marginal field incentive (investment allowance)	1,728	993
Other movements	(277)	461
Prior year tax compensation paid within fiscal union	-	(637)
Changes in prior year tax estimates	(2,214)	-
Tax (charge)/credit	**(33,502)**	**454**
Effective tax rate	*49.4%*	*14.6%*

	Temporary differences			
€'000	Tax losses	Provisions	Other	Total
At 31 December 2019 – as previously stated	**21,710**	**14,041**	**(14,236)**	**21,515**
Prior year adjustment	-	-	1,392	1,392
Restated at 31 December 2019	**21,710**	**14,041**	**(12,844)**	**22,907**
Profit and loss account	(390)	(10,326)	13,534	2,818
Restated at 31 December 2020	**21,320**	**3,715**	**690**	**25,725**
Deferred tax on hedge reserve in OCI *(see note 17)*	-	-	5,891	5,891
Profit and loss account	(14,305)	453	(4,268)	(18,120)
At 31 December 2021	**7,015**	**4,168**	**2,313**	**13,496**

Notes to the Financial Statements

Tax losses constitute unutilised 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. SPS losses can be carried forward indefinitely and are expected to be recovered in the coming year given the production levels and high gas prices in 2022.

During 2020, a framework for fiscal union compensation was established covering 2019 and future years. This results in intercompany settlements 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 10: Loan receivable

€'000	31 December 2021	31 December 2020
Loan receivable from parent	60,000	-

Terms and repayment schedule

				31 December 2021		31 December 2020	
€'000	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Unsecured term loan	EUR	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 11: Joint arrangements

Kistos NL2 has the following interest in joint arrangements that classifies as a joint operation:

Joint arrangement	Licence owner	License type	Partner	Status	Year ended 31 December 2021	Year ended 31 December 2020
Q07 (offshore block)	Kistos NL2	Production	EBN	Operated	60%	60%
Q08 (offshore block)	Kistos NL2	Exploration	EBN	Operated	60%	60%
Q10-A (offshore block)	Kistos NL2	Production	EBN	Operated	60%	60%
Q10-B (offshore block)	Kistos NL2	Exploration	EBN	Operated	60%	60%
Q11 (offshore block)	Kistos NL2	Exploration	EBN	Operated	60%	60%

Note 12: Property, plant and equipment

€'000	Exploration and evaluation assets (restated)	Assets under construction (restated)	Production facilities including wells (restated)	Other (restated)	Total (restated)
Acquisition cost 31.12.2019*	**1,490**	**23,563**	**130,312**	**129**	**155,494**
Additions	460	1,668	335	3	2,466
Other	-	(1,650)	(16,706)	-	(18,356)
Reclassification	-	(8,458)	8,458	-	-
Acquisition cost 31.12.2020	**1,950**	**15,123**	**122,399**	**132**	**139,604**
Accumulated depreciation and impairments 31.12.2019*	**-**	**(5,859)**	**(16,181)**	**(8)**	**(22,048)**
Depreciation	-	-	(13,955)	(44)	(13,999)
Impairment	-	-	-	-	-
Accumulated depreciation and impairments 31.12.2020	**-**	**(5,859)**	**(30,136)**	**(52)**	**(36,047)**
Book value 31.12.2020	**1,950**	**9,264**	**92,263**	**80**	**103,557**
Acquisition cost 31.12.2020	**1,950**	**15,123**	**122,399**	**132**	**139,604**
Additions	15,493	9,550	346	266	25,655
Other	-	-	-	-	-
Reclassification	-	(18,814)	18,814	-	-
Acquisition cost 31.12.2021	**17,443**	**5,859**	**141,559**	**398**	**165,259**
Accumulated depreciation and impairments 31.12.2020	**-**	**(5,859)**	**(30,136)**	**(52)**	**(36,047)**
Depreciation	-	-	(14,027)	(138)	(14,165)
Impairment	-	-	(8,354)	-	(8,354)
Accumulated depreciation and impairments 31.12.2021	**-**	**(5,859)**	**(52,517)**	**(190)**	**(58,566)**
Book value 31.12.2021	**17,443**	**-**	**89,042**	**208**	**106,693**

* Opening costs, depreciation and book value includes the reclassification of an intangible asset of €1.8MM, €145 thousand and €1.65MM respectively, from intangible assets to tangible fixed assets.

The reclassification in 2021 and 2020 relates to the movement of assets to production facilities including wells following the start of production. Other in the prior year arises from a re-assessment of the provision required to decommission the existing facilities, pipeline and wells that are in the field, which consequentially results in a change in the capitalised cost of abandonment.

Notes to the Financial Statements

Assets under construction

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

Impairment

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

- Following the unsuccessful restimulation of well Q10-A06 the amount spent has been impaired (€1.43MM); and
- 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 13: Other receivables

€'000	**31 December 2021**	31 December 2020
Joint operator receivable	3,894	610
Other receivables	1,555	544
Receivables from affiliates	3,935	484
Prepayments	91	172
VAT receivable	2,236	37
Total other receivables	**11,711**	**1,847**

Information about the company's exposure to credit risks, and impairment losses for other short-term receivables is included in Note 24 Financial instruments.

Note 14: 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. The 2020 restricted funds relate to bond interest payments on the €87MM bond up to 25 January 2021 held in a separate designated account.

€'000	**31 December 2021**	31 December 2020
Bank accounts	44,400	15,761
Restricted funds	22	1,930
Cash and cash equivalents	**44,422**	**17,691**

Note 15: Share capital

€'000	**31 December 2021**	31 December 2020
Share capital	-	-

The issued and authorised share capital of Kistos NL2 consists of 1 share with a par value of €1. Kistos NL1 is the single shareholder of the Company.

The Company'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 Company.

Note 16: Share premium

€'000	**31 December 2021**	31 December 2020
Share premium	20,517	20,517

Note 17: Hedge reserve

€'000	**31 December 2021**	31 December 2020
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 and year end and fixed hedged instrument (100,000 MWh of production) discounted cash flow. Amounts that are effective and realized 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 8). 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 18: Proposed appropriation of result

The Company proposes to transfer the profit for the year of €34.4MM to retained earnings in accordance with Article 4.1 of Articles of Association. This article states that the profits are at the disposal of the shareholders.

Note 19: Abandonment provision

€'000	31 December 2021	31 December 2020
Provisions as of beginning of the period	**13,214**	**31,457**
Accretion expense	65	113
Addition	3,363	-
Utilisation	(736)	-
Change in estimates and incurred liabilities	(2)	(18,356)
Total abandonment provision at year end	**15,904**	**13,214**
Break down of the abandonment provision to short-term and long-term liabilities		
Short-term	-	-
Long-term	15,904	13,214
Total abandonment provision	**15,904**	**13,214**

Abandonment provisions are determined using an inflation rate of 1.0% (2020: 1.0%) and a discount rate of 0.5% (2020: 0.5%) in line with publicly available economic forecasts. The addition in 2021 relates to the abandonment provision for Q11-B and Q10-A04-S1. 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.

The changes in estimates and incurred liabilities during the first half of 2020 relate to an update of the cost estimates to abandon the Q10-A platform, pipeline and wells and an update of the inflation rate assumption. Following clarifications of the proposed legislative changes regarding abandonment requirements, the cost to abandon is now estimated based on cleaning and leaving the pipeline between Q10-A and P15 in place.

Note 20: Bond payable

€'000	Bond €90MM	Bond €60MM	Bond costs	Total
Book value at 31.12.2019	**86,014**	**-**	**(1,448)**	**84,566**
Amortisation of bond costs	-	-	514	514
Unwinding of bond discount	348	-	-	348
Book value at 31.12.2020	**86,362**	**-**	**(934)**	**85,428**
Proceeds from borrowings	3,000	60,000	-	63,000
Transaction cost modification	-	-	(2,933)	(2,933)
Amortisation of bond costs	-	-	899	899
Unwinding of bond discount	135	-	-	135
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 euro and runs from May 2021 to November 2024. Interest is paid on a half yearly basis. 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 as a loss in the profit and loss account (€0.8MM) under finance costs (see note 8). 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 euro 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.

Notes to the Financial Statements

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		31 December 2020	
€'000	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bond	EUR	8.75%	2024	90,000	88,042	87,000	86,362
Secured bond	EUR	9.15%	2026	60,000	60,000	-	-
Total interest-bearing liabilities				**150,000**	**148,042**	**87,000**	**86,362**

Financial covenants

€90MM bond		
Issuer *(Kistos NL2)*	**Requirement**	**Effective date**
Minimum liquidity	10,000,000	At all times
Maximum leverage ratio	2.50	From and including 1 January 2022
€60MM bond		
Minimum liquidity	10,000,000	At all times
Maximum leverage ratio	2.50	From and including 1 January 2022

No covenants currently apply to the bond except for the minimum liquidity for Kistos NL2. During 2021, Kistos NL2 complied with the minimum liquidity covenant.

Note 21: Trade payables and accrued expenses

€'000	31 December 2021	31 December 2020
Trade payables	8,646	1,203
Other accrued expenses	13,484	6,570
Total trade payables and accrued expenses	**22,130**	**7,773**

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 22: Other liabilities

€'000	31 December 2021	31 December 2020
Liabilities against affiliates	506	8,264
Bond interest payable	1,854	1,356
Hedge liability	11,781	-
Wage tax payable	76	-
Contingent consideration	-	1,791
Right of use liability	91	-
Total other liabilities	**14,308**	**11,411**

Q10 contingent consideration

The contingent liability to pay PA Resources (a subsidiary of Petrogas E&P LLC) has been settled in 2021.

Interest payable

The interest over the 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 bond payable as at year-end.

Hedge liability

The hedge liability of €11,781 thousand (2020: Nil) represents the potential fair value liability in respect of the cash flow hedge for the remaining period of the contract. The fair value has been calculated with reference to the difference between the discounted values of the remaining gas hedge and hedging instrument at the gas forward curves discounted.

Note 23: Interest-bearing loans from affiliates

€'000	31 December 2021	31 December 2020
Balance at the beginning of the year	**3,700**	**4,200**
Repayments during the year	(1,896)	(500)
Balance at the end of the year	**1,804**	**3,700**

The current loan with Kistos NL1 is unsecured, bears an interest rate of 8.4% per annum and is repayable by 1 January 2025.

Note 24: Financial instruments

Financial risk management objectives

The Company 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 Company does not enter into or trade financial instruments, including derivatives, for speculative purposes.

Fair values of financial assets and liabilities

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

Risk management framework

The directors of Kistos NL2 have overall responsibility for the establishment and oversight of the Company's risk management framework. The Kistos Board is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company's activities.

The Company 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 Company's risk management policies, procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Notes to the Financial Statements

Commodity price (market) risk

Market risk is the risk that changes in market prices eg 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 8).

Cash flow and interest rate risk

The Company's principal exposure to interest costs relates to the bond issues and the €60MM intragroup loan from Kistos NL1. 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 Company as management believes the effects of an adverse change in the interest rates to be low. The intragroup loan carries a fixed interest rate of 8.4% until its expiry on 1 January 2025. The Company'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 euro. 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	**Year ended 31 December 2021**	Year ended 31 December 2020	**31 December 2021**	31 December 2020
Interest rate	+10 basis points	(90)	(87)	(45)	(73)
Interest rate	-10 basis points	90	87	45	73

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

Expected credit loss assessment

The Company 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 Company are its receivables generated by the marketing of gas and condensate and amounts due from joint JV operators. These exposures are managed at the Group level. The Company's oil and gas sales are predominantly made to international oil market participants including the oil majors, trading houses and refineries. Joint JV 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 Company held cash and cash equivalents of €44.4MM at 31 December 2021 (2020: €17.7MM). The cash and cash equivalents are held with bank and financial institution counterparties that 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 Company considers that its cash and cash equivalents have low credit risk based on external credit ratings of the counterparties.

The Company uses a similar approach for assessment of expected credit losses (ECLs) for cash and cash equivalents to those used for debt securities.

The Company has not recognised an allowance for credit losses over cash and cash equivalents in 2021 or 2020.

Notes to the Financial Statements

Foreign currency risk

The Company conducts and manages its business predominately in euros, the operating currency of the industry in which it operates. From time to time the Company undertakes certain transactions denominated in other currencies. There were no foreign currency financial derivatives in place at 31 December 2021 (2020: €nil).

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

The Company does not see material movements arising from the principal foreign currency fluctuations in British pound sterling (GBP), United States dollar (USD) and Norwegian krone (NOK).

Liquidity risk

The Company 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 Company'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 Company's producing assets and delays to development projects. In addition to the Company's operating cash flows, portfolio management opportunities are reviewed to potentially enhance the financial capability and flexibility of the Company.

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

The following table details the Company'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 Company 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
Liabilities against affiliates – tax settlement	-	-	14,980	-	-	14,980
Interest-bearing loans from affiliates	8.40	-	-	1,804	-	1,804
Other liabilities	-	582	1,854	91	-	2,527
Trade payables	-	8,646	-	-	-	8,646
Total		**9,228**	**16,834**	**149,968**	**-**	**176,030**
31 December 2020						
Bond €87MM	8.50	-	-	86,362	-	86,362
Other non-current liabilities	-	-	-	89	-	89
Other liabilities	-	9,620	1,791	-	-	11,411
Interest-bearing loans from affiliates	8.40	-	-	3,700	-	3,700
Trade payables	-	1,203	-	-	-	1,203
Total		**10,823**	**1,791**	**90,151**	**-**	**102,765**

Note 25: Related-party transactions

As described in note 1, Kistos NL1 (former Tulip Oil Netherlands B.V.) was acquired by Kistos plc on 20 May 2021. As of this date Kistos NL2 (former Tulip Oil Netherlands Offshore B.V.) together with Kistos NL1 and Kistos plc form the Kistos Group.

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

Intra group financing

Kistos NL2 has entered into a loan agreement with Kistos NL1 to finance the purchase of the licence interest in Q7 and Q10-A and for the funding of the further exploration of these licences until the company will generate its own cash flows. The loan is unsecured and bears an interest rate of 8.4% per annum (see note 23).

An additional €60MM bond, with a coupon of 9.15% and a maturity date of May 2026, was issued in conjunction with the acquisition of Kistos NL2 by Kistos plc. Kistos NL2 is the issuer of the bond and the bond of €60MM has been subsequently loaned to Kistos plc (see note 10).

Notes to the Financial Statements

Intra group tax fiscal union compensation

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.

Compensation of key management and key management personnel

The Directors of Kistos NL2 and management personnel are the only key management members as defined by IAS 24 – Related Party Disclosures. This function is provided by certain management companies and their personnel to Kistos plc as well as by personnel employed by Kistos plc from which recharges to the Company are conducted.

The Company is wholly and directly controlled by Kistos NL1 and by its ultimate parent Kistos plc.

Transactions with other related parties are set out below:

€'000	**Transaction type**	**Year ended 31 December 2021**	Year ended 31 December 2020
Cost recharges	Other related parties	-	(2,990)
Kistos NL1 B.V.	Interest payable	(197)	(316)
Kistos NL1 B.V.	Services received	-	(1,341)
Kistos NL1 B.V.	Services provided	89	-
Kistos NL1 B.V.	Tax compensation	1,500	(2,364)
Kistos NL1 B.V.	Tax liability	(14,980)	-
Kistos plc	Interest receivable	3,452	-
Kistos plc	Tax liability	(851)	-
Kistos plc	Services received	(780)	-
Kistos plc	Services provided	81	-

Outstanding balances receivable (payable) at end of year:	**Transaction type**	**Year ended 31 December 2021**	Year ended 31 December 2020
Tulip Oil Holding B.V.	Services provided	-	(475)
Rhein Petroleum	Services provided	-	(22)
Kistos NL1 B.V.	Services provided	11	-
Kistos NL1 B.V.	Services received	-	(7,767)
Kistos NL1 B.V.	Tax compensation	390	484
Kistos NL1 B.V.	Tax liability	(14,980)	-
Kistos NL1 B.V.	Intercompany loan	(1,803)	(3,700)
Kistos plc	Interest receivable	3,452	-
Kistos plc	Services provided	81	-
Kistos plc	Services received	(780)	-
Kistos plc	Loan receivables	60,000	-

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash. No expense has been recognised in the current year or prior year for bad and doubtful debts in respect of amounts owed by related parties.

Note 26: Leases

Leases as lessee

In 2020, the Company leased a warehouse until Q1 2022 and office facilities until the end of 2022 under operating leases, with an option to renew the lease after that date.

The Company also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

(€'000)	**Office facilities 2021**	Office facilities 2020
Balance at 1 January	39	77
Depreciation charge for the year	(102)	(40)
Additions to right-of-use assets	154	2
Balance at 31 December	**91**	**39**

Amounts recognised in profit or loss

Leases under IFRS 16 (€'000)	**Year ended 31 December 2021**	Year ended 31 December 2020
Interest on lease liabilities	4	5
Expenses related to short-term leases	-	-
Expenses related to leases of low-value assets, excluding short-term leases of low-value assets	3	-

Amounts recognised in statement of cash flows

Leases under IFRS 16 (€'000)	**Year ended 31 December 2021**	Year ended 31 December 2020
Total cash outflow for leases	**98**	47

Notes to the Financial Statements

Extension options

The warehouse and office facilities include the option for an extension of two one-year periods exercisable by the Company up to one month before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Company has estimated that the potential future lease payments, should it exercise the full extension option, would result in an increase in lease liability of €0.05MM (2020: €0.04MM).

The future minimum lease payments under non-cancellable leases payable as at 31 December are shown in the table below:

(€'000)	**IFRS 16 31 December 2021**	IFRS 16 31 December 2020
Operating lease commitments		
Due within one year	95	44
Two to five years	-	-
Due after five years	-	-
Total operating lease commitments	**95**	**44**

Note 27: Contingencies and commitments

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 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 (2020: €nil).

Note 28: Reconciliation of investing cash flows

€'000	Note	**Year ended 31 December 2021**	Year ended 31 December 2020 (restated)
Additions and other movements to fixed assets	12	(25,656)	15,890
Non-cash abandonment (other movements)/additions	19	3,361	(18,356)
Movement in accruals and trade payables		1,517	1,702
Investing cash flow		**(20,778)**	**(764)**

Note 29: Reconciliation of financing cash flows

€'000	**Share premium**	**Bond €90MM**	**Bond €60MM**	**Amortised bond costs**	**Interest-bearing loans from affiliates**	**Other non-current liabilities**	**Other liabilities**
At 31.12.2019	**20,517**	**86,014**	**-**	**(1,448)**	**4,200**	**121**	**1,899**
Financing cash flows	-	-	-	-	(500)	(31)	-
Non-cash movements	-	348	-	514	-	(1)	(108)
At 31.12.2020	**20,517**	**86,362**	**-**	**(934)**	**3,700**	**89**	**1,791**
Financing cash flows	-	3,000	60,000	(2,933)	(1,896)	(98)	-
Non-cash movements	-	(1,320)	-	899	-	131	10,066
At 31.12.2021	**20,517**	**88,042**	**60,000**	**(2,968)**	**1,804**	**122**	**11,857**

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

Note 30: Subsequent events

The Q11-B drilling campaign was completed post year end with the rig being safely moved away from Q10-A in February 2022. The Q11B drilling was targeting three main reservoirs – Slochteren, Bunter and Zechstein. Prior to the end of the year Slochteren was determined to be water bearing. After the year end hydrocarbons have been discovered in 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 developments in the Ukraine have no impact on the customer or supplier base for Kistos NL2. The increase in the gas price has a positive impact on the revenue of the Company in 2022.

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

Note 31: Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these financial statements, except if mentioned otherwise (also see note 2).

Certain comparative amounts in the statement of profit or loss and other comprehensive income have been restated, reclassified or re-presented.

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

A	Foreign currencies	30
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C	Operating profit	30
D	Joint operations	30
E	Finance income and finance costs	31
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G	Leases	32
H	Inventory	32
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S	Financial instruments	35–38
T	Impairment	38–39
U	Fair value	39
V	Standards issued that are not effective	40
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a) Foreign currencies

The euro is the functional and presentation currency of the Company. Transactions in foreign currencies are translated to the respective functional currencies of the Company entities at exchange rates on the dates of the transactions. Income and expense items are translated at the average exchange rates for the period.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate on 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 at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within other operating expenses or finance costs.

b) Revenue

Sales revenue represents the sales value, net of VAT, of the Company's share of gas sales in the year. Revenue is recognised at a point in time 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.

c) Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Company 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.

d) Joint operations

The Company 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 Company 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 Company's balance sheet.

Notes to the Financial Statements

e) 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 Company's right to receive payment is established.

f) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. For purposes of corporate income tax, Kistos NL1 formed a fiscal unity with its subsidiary Kistos NL2 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 which is applicable from 1 April 2021. The fiscal unity with Tulip Oil Holding B.V. ended on 31 March 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 Company 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 Company. 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 Company 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.

Notes to the Financial Statements

g) Leases

At inception of a contract, the Company 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 Company 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 Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company 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.

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 Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company 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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company 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 Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company 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 Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company 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 Company 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 statement of financial position.

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

h) 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.

Notes to the Financial Statements

i) Intangible assets and goodwill

Recognition and measurement

Goodwill

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

Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Other intangible assets

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Company 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.

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 Company 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 Company 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.

j) Exploration, evaluation and production assets

The Company adopts the successful efforts method of accounting for exploration and evaluation costs. Pre-licence 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 Company's depreciation accounting policy.

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

k) Commercial reserves

P1 developed producing and P2 reserves are estimates of the amount of oil and gas that can be economically extracted from the Company's oil and gas assets. The Company 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.

l) 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 Company 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.

Notes to the Financial Statements

In order to discount the future cash flows the Company calculates CGU-specific discount rates. The discount rates are based on an assessment of the Company'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.

m) 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.

Restructuring

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

Onerous contracts

A provision for onerous contracts is measured at the present value with the lower of the expected cost in 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 Company recognises any impairment loss on the assets associated with that contract.

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.

n) 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. The cost of certain items of property, plant and equipment at 1 January 2015, the Company's date of transition to EU-IFRS, was determined with reference to its fair value at that date.

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 Company.

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.

o) 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 Company 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.

Notes to the Financial Statements

Pension plans

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

p) 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.

q) 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 fair value though profit and loss (FVTPL).

r) Bond modification

When the Company 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 Company 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 present 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.

s) Financial Instruments

Recognition and initial measurement

Trade receivables, unbilled receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company 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 Company 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.

Notes to the Financial Statements

On initial recognition of an equity investment that is not held for trading, the Company 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 Company 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 in part of the cost to the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

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 Company 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 Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, 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 Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. The Company 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.

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments and hedge accounting
The Company 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.

Notes to the Financial Statements

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 Company 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 Company documents the risk management objective and strategy for undertaking the hedge. The Company 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.

Derivative financial instruments and hedge accounting

The Company has adopted the Phase 2 amendments and retrospectively applied them from 1 January 2021.

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 Company 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 Company 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 Company 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.

If changes are made in addition to those changes required by IBOR reform described above, then the Company 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 Company 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 Company 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 Company 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 the 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.

Notes to the Financial Statements

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.

t) Impairment

Non-derivative financial assets

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

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

The Company 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 Company 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 Company's historical experience and informed credit assessment and including forward-looking information.

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

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

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

The Company 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).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company 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 Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company 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 Company on terms that the Company 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.

Notes to the Financial Statements

Presentation of allowance for ECL in the statement of financial position

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 Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company 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 Company 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 Company 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 Company's procedures for recovery of amounts due.

Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax 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 generates 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.

u) 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 Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company'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 Company 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.

If there is no quoted price in an active market, then the Company 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 Company 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 Company 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.

Notes to the Financial Statements

v) 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 Company 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 Company 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 statement of financial position. Under the amendments, the Company will recognise a separate deferred tax asset and a deferred tax liability. There will be no impact of this amendment on the disclosure of deferred tax assets and liabilities as a right of offset exists.

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 Company 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 Company'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).

w) Operating segments

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

The Hague, 6 April 2022

Andrew Austin
Director

Bart de Sonnaville
Director

Other Information

Provisions in the Articles of Association governing the appropriation of profit

Under article 4.1 of the Company's Articles of Association, the profit is at the disposal of the General Meeting, which can allocate said profit either wholly or partly to the formation of, or addition to, one or more general or special reserve funds.

Independent auditor's report

The independent auditor's report with respect to these financial statements is set out on the next pages.

Glossary

Adjusted EBITDA	The Board uses Adjusted EBITDA as a measure to assess the performance of the Company. 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.
Affiliates	Kistos plc and/or Kistos NL1 B.V.
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 NL2 B.V.
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through the profit and loss account
P15	Third-party platform (operated by TAQA) where produced gas is exported to for processing and transportation to shore.
Parent company	Kistos NL1 B.V.
Q07, Q08, Q10-A, Q10-B, Q11	Offshore licences held and operated by Kistos NL2 B.V.
Ultimate parent company	Kistos plc
ROU	Right of use.
Unit opex	Calculated as production costs divided by production.

Independent Auditor's Report

Independent Auditor's Report to the shareholders of Kistos NL2 B.V.

A. Report on the audit of the financial statements 2021 included in the annual report

Our opinion

We have audited the financial statements 2021 of Kistos NL2 B.V. ('the Company') based in The Hague.

We have audited	Our opinion
The financial statements comprise: 1. the statement of financial position as at 31 December 2021; 2. the following statements for 2021: the income statement, the statements of comprehensive income, changes in equity and cash flows; and 3. the notes comprising a summary of the significant accounting policies and other explanatory information.	In our opinion, the accompanying financial statements give a true and fair view of the financial position of Kistos NL2 B.V. as at 31 December 2021 and of its result and its cash flows for 2021 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Kistos NL2 B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

B. Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 2.1 million, reflecting 1% of total assets excluding the € 60M ultimate parent loan receivable. Total assets reflects the capital expenditure in production and exploration activities as well as working capital. These elements, together with non-financial information such as reserves in licensed areas, constitutes the basis for future production and cashflows as well as the in-house investing capacity for new campaigns. As such we consider this the most appropriate materiality benchmark reflecting the value of the Company and less impacted by market volatility effects. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with management that misstatements in excess of € 0.1 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Audit approach going concern

As explained in the section 'Going concern' in notes 1b and 2d of the financial statements, management has carried out a going concern assessment and identified no going concern risks. Our procedures to evaluate the going concern assessment of management includes:

- We agreed the opening cash position used in the cash flow forecast to the audited position at 31 December 2021;
- We performed an accuracy check on the mechanics of the cash flow forecast model prepared by management;
- We assessed managements' financial forecasts prepared for a period of at least 12 months from the date of these financial statements. This included consideration of the reasonableness of key underlying assumptions by reference to current and future expected operating and capital expenditure, including any effects of uncertainties of the COVID-19 pandemic;

Independent Auditor's Report to the shareholders of Kistos NL2 B.V.

- We corroborated management's assessment of future committed and non-committed expenditure on the exploration assets and the acquisition and considered whether it is reasonable that the Company has control over the timing and occurrence of these cash flows over the going concern period; and
- We evaluated the adequacy of disclosures made in the financial statements in respect of going concern.

These audit procedures did not lead to any material findings regarding the going concern assumption of the Company.

Audit approach fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the entity and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how Kistos plc's audit committee exercises oversight, as well as the outcome thereof. We note that management has not formalised its fraud risk assessment and fraud response plan.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as among others the code of conduct, whistle blower procedures and incident registration. Where considered appropriate, we tested the operating effectiveness of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

We identified the following key fraud risks:

- Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Whilst, based on our inquiries and audit work performed throughout the engagement, we have not encountered any specific examples of management override and management have not communicated any instance of fraud to us, the risk is present in all companies.
- A risk of unauthorized payments as a consequence of not fully comprehensive internal control measures.

As part of the audit response we performed the following specific procedures:

- Holding discussions with management and the Kistos plc audit committee to consider any known or suspected instances of fraud;
- Inspecting minutes of management meetings and those charged with governance;
- Evaluating the design and the implementation and, where considered appropriate, testing the operating effectiveness of internal controls that mitigate fraud risks;
- Testing the appropriateness of journal entries made throughout the period which met specific risk-based criteria;
- Assessing the judgments made by management when making key accounting estimates and judgments, and challenging management on the appropriateness of these judgments, specifically around key audit matters as discussed below;
- Performing a detailed review of the Company's period-end adjusting entries, and investigating any that appear unusual with regards to nature or amount to corroborative evidence;
- Performing detailed testing on account balances which were considered to be at a greater risk of susceptibility to fraud or management bias; remaining alert for indications of fraud throughout our other audit procedures and evaluated whether identified findings or misstatements were indicative of fraud;
- Performing analyses on outgoing payments based on pre-defined risk-based criteria; and
- Performing detailed testing on a sample of outgoing payments to corroborative evidence.

We incorporated elements of unpredictability in our audit and applied professional scepticism in conducting our audit procedures. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. This did not lead to indications for fraud potentially resulting in material misstatements. With regard to the risk of unauthorized payments, no fraudulent payments were identified.

Our 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. We have communicated the key audit matters to management and Kistos plc Audit Committee. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon; accordingly, the observations provided in the successive descriptions below are not intended to provide and should not be read as a separate opinion on these matters.

We decided not to include the prior-year adjustments as a key audit matter in the below table, as these were sufficiently elaborated and disclosed in note 2f of the financial statements.

Independent Auditor's Report to the shareholders of Kistos NL2 B.V.

Depletion of producing assets – note 2 and note 12	Our audit approach
Depletion of production assets is based on the unit of production accounting method and therefore calculated as actual production versus remaining reserves. The remaining reserves involves complex measurement methods and subjective outcomes. We therefore identified the accuracy of the depletion calculation and valuation of the remaining reserves as a key audit matter.	We considered a fully substantive audit approach to be most appropriate in this key audit matter. We performed a recalculation of the depletion of producing assets based on the relevant inputs, agreeing those to supporting documentation. As part of this recalculation we also performed integrity checks on management's depletion model. We reconciled the reserve estimates to the Competent Person's Report of Sproule and assessed the basis for any revisions by management to such reserves and resources impacting the model. We also assessed the Competent Person's independence and competence. We assessed the Company's depreciation policy and useful life assessment; comparing inputs to the Competent Person's Report, license registers and production data. ***Key observations*** As per the Company's accounting policy, depletion is calculated against developed proven and probable reserves. We obtained a supplemental sensitivity analysis of the Competent Person's Report excluding the future development expenditure and undeveloped reserves related to the IJmuiden export route. We consider management's assessment regarding depletion of producing assets to be reasonable at 31 December 2021.

Independent Auditor's Report to the shareholders of Kistos NL2 B.V.

Decomissioning (abandonment) provision estimate – note 2 and note 19	Our audit approach
The company is subject to decommissioning (abandonment) obligations regarding production and exploration assets. Specific laws and regulations exist entailing technical requirements of decommissioning. The magnitude of the decommissioning expenditure is inherently subjective, mainly driven by cost estimates, which are dependent on the methods and techniques envisioned to apply at decommissioning date. Considering these aspects and the increased level of professional judgment, we identified the valuation and completeness of the decommissioning (abandonment) provision as a key audit matter.	For this key audit matter we decided to apply a fully substantive audit approach. We reviewed the Company's permits and licenses and considered the completeness of provisions based on the abandonment retirement obligations existing under the terms of such licenses and permits and associated enacted legislation and oil and gas sector practice in Netherlands (amongst others the Dutch Mining Act or "Mijnbouwwet" including relevant amendments and decrees, NOGEPA Standard 45 on wells decommissioning, EBN & NOGEPA's Masterplan and Nexstep initiative as well as industry practices). We inquired with management and specific employees involved in the drilling and operation of the rigs to assess whether decommissioning schedules ensure legislative compliance. We verified the inflation rates to market data and discount rates to applicable bond rates to corroborate the inputs used by Management for calculation of decommissioning costs. As part of our procedures, we engaged an auditors' expert to retrospectively review and assess Management's calculation of decommissioning costs. We assessed the independence and competence of the auditors' expert, and challenged the assumptions used in their report to ensure the outcomes were appropriate and tailored to Kistos. We did so by attending meetings with the auditors' expert and the internal project and drilling teams, reviewing any reporting deliverables and following up on any exceptions noted within the report received, noting no additional reportable matters. We reviewed all minutes of management meetings and correspondence with regulatory authorities to identify any specific environmental incidents, claims or contingencies. We reviewed and challenged management on the disclosures in the notes and significant accounting policies regarding the estimates and judgments made to determine the value of the asset retirement obligation. ***Key observations*** The abandonment expenditure estimate assumes cleaning and leaving pipelines in situ in accordance with Article 45 of the Dutch Mining Act and Articles 103 and 106 of the Dutch Mining Decree. Based on the procedures performed, we found the judgments made by Management to be reasonable with regard to the valuation and completeness of the decommissioning provision.

Independent Auditor's Report to the shareholders of Kistos NL2 B.V.

Application of Dutch Oil & Gas taxation legislation – note 2 and note 9	Our audit approach
Income tax calculations are inherently 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 the mathematical accuracy of tax calculations and the valuation of deferred tax assets was considered to be a key audit matter.	We evaluated the design and implementation of the internal controls in relation to this key audit matter and considered a fully substantive audit approach to be most appropriate. We included a BDO tax expert in our team (with significant experience of North Sea Oil & Gas clients) to review tax calculations and computations, and ensure that the underlying application of the Dutch Mining Act is appropriate. The audit team agreed relevant items to tax computations and verified that calculations are in line with IAS 12; We obtained confirmations from management and the Company's tax adviser regarding the completeness of disclosed tax matters. We reviewed available tax authority audit reports. We reviewed the disclosures and accounting policies regarding taxation in the financial statements, to ensure these are in line with the applicable accounting standards. ***Key observations*** The tax calculation and the valuation of deferred tax assets applied by Management is deemed reasonable in the context of the Dutch taxation legislation. The related disclosure in the financial statements is considered adequate.
Accounting for cashflow hedging contract – note 17	**Our audit approach**
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 as from July 2021. 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 involving material fair value changes. The correct accounting treatment and valuation is considered a key audit matter.	Due to the nature of this financial statement caption, we considered a fully substantive audit approach to be most appropriate. We corroborated that the appropriate hedging elections and supporting documentation thereof are maintained by the entity. We reviewed the underlying agreement to ensure that the accounting treatment adopted reflects the nature and terms of the contract. We assessed management's valuation of derivatives and agreed inputs into the calculation to quoted market prices. We reviewed the disclosures around the cashflow hedging contract to ensure these were appropriately reflected in the financial statements and in line with the applicable accounting standards. ***Key observations*** The cashflow hedge is deemed effective, except for an -at inception unforeseen- interruption due to production shortage as a consequence of timing of the ongoing drilling campaign. We consider the fair value of the hedge liability (unrealised loss), which is mainly driven by the remaining forward transactions and the Dutch Title Transfer Facility ('TTF') futures as at 31 December 2021, to be reasonable.

Independent Auditor's Report to the shareholders of Kistos NL2 B.V.

C. Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- summary of financial results and production
- report of the board;
- other information as required by Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

D. Report on other legal and regulatory requirements

Engagement

We were engaged by the shareholder as auditor of Kistos NL2 B.V., as of the audit for financial year 2021.

E. Description of responsibilities regarding the financial statements

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting, unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Kistos plc audit committee is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Independent Auditor's Report to the shareholders of Kistos NL2 B.V.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Kistos plc audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Kistos plc audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Kistos plc audit committee, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Rotterdam, 6 April 2022

For and on behalf of BDO Audit & Assurance B.V.,

w.s. drs. A. Thomson RA

KISTOS
ENERGY IN TRANSITION

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